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KEDI ECONOMIC SURVEY

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October 31, 1980

President: Vladimir J. Simunek

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Reagan, Carter, Anderson or what's-his name from the Libertarian party will take office, but none of them will be influential enough to alter the pattern of government spending and revenues significantly enough to achieve the goal of a balanced budget. The budget may reflect a cut in the deficit of around $20 billion in 1983, but after that it will start to grow again.

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When personal income is adjusted for inflation, no gains are seen. Corporate profit growth during 1981 will be moderate. When that year is compared to the current year, the leaders will be building materials, rubber, paper, steel, autos, and utilities.

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The data recently released have shown that real GNP has gained when compared with the second quarter of this year:

1980 GNP in bil. const. '72 $	
I quarter	1444.7
II quarter	1408.6
III quarter	1412.1

In the early predictions for this year, KEDI stressed that there would not be a recession in the technical sense of the word. Actual developments have confirmed this.

The economic definition of a recession which has been used for many years is as follows: two or more consecutive quarterly declines in GNP. Hence, there has not been any recession in the strict sense of the word - despite the repeated use of the word by the press and the more pessimistic forecasters.

There was, of course, a drastic decline in the economic activity of this nation during the second quarter. Gradual recuperation is now occurring.

Obviously, one has either to admit that, by textbook economics, there was no recession, or one has to redefine a recession. (The folk wisdom which says a recession is when your neighbor is out of work and a depression is when you are jobless is not sufficient here.)

In the spring of this year, personnel in the National Bureau of Economic Research announced that the recession in this country started in January, 1980. This was in spite of the apparent growth of GNP that month and during the entire first quarter. This raises perplexing questions; namely, are the assorted economic phases labeled by the NBER as recessions since 1945 really recessions, and how long did they actually last?

Clarification is needed as to what should be considered as a recession. The confusion needs to be eliminated.

The outlook by this Institute remains unchanged when compared with previous issues. The last quarter of this year is seen as follows:

Some growth of GNP as recovery from the slump proceeds,
a high inflation rate,
no significant changes in the unemployment rate, and
high interest rates.

That is in line with predictions published here in 1979 for the entire current year. At that time the overview of the year included the forecast that 1980 would be as follows:

A flat year concerning economic growth,
with high inflation,
moderate unemployment, and
high levels of interest rates.

The outlook of this Institute remains basically optimistic in terms of growth. It is expected here that GNP will grow by slightly more than 2

per cent during 1981. However there will be continued "growth" in prices also: an inflation rate of 13 per cent is forecast here. It will not abate. Still, in another area, employment, the picture will clear somewhat. Unemployment will decline slightly. There will be strong consumer demand and constant increases in business investment.

The general projections of some other analysts show a range of scenarios. The Business Council, comprised of chief executive officers of large companies, predicted that next year, real GNP will increase by 1½ per cent after a projected decline of nearly 1 per cent this year. They also expect inflation to slow to a 10 per cent rate.

It is pleasurable to present the following quote knowing that this Institute does not fit the description. "Three months ago, I and most other forecasters would have scoffed at a prediction that growth would resume so soon," said Courtenay Slater of the Commerce Department as quoted in the Wall Street Journal on October 20. She referred to most economists as underestimating the underlying strength of the economy. There is no argument on that view from KEDI.

Others did not share that view. For instance, Leon Taub of Chase Econometrics spoke of the most recent actual data as only showing the sharp descent of the downturn being ended. According to him there will be changes in the GNP at minimal levels of plus or minus 1 per cent for most of next year.

On the other hand, economist Michael Evans predicts real GNP will go up 4 to 5 per cent in 1981. He calls this an economic period of stagnation.

Susan Sterne of Economic Analysis Associates indicated that recovery is well under way. She expects real disposable income to be 3.4 per cent higher next year than this year. KEDI certainly agrees with her view that most economists view the consumer spending pattern with too much skepticism, but does not agree that per capita real disposable income will gain.

A more cautious view of the economy was expressed by George Perry of the Brookings Institution when he indicated that it was a toss up as to whether a recovery really did start in August or even in September. At least he did see third quarter inventory liquidations as a possible plus for fourth quarter production.

In summary, it is expected by this Institute that the last quarter of this year will be slightly above that quarter of 1979. It is forecast here that in 1981 there will be a 2 per cent growth in real GNP, an inflation rate of 1 per cent and some slight declines in unemployment. KEDI's forecast is highlighted on Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the Sept., 1980, issue, the changes concern the Assumptions No. 2 and 7, and update of Assumption No. 1.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1421.5	1452.0	1675.9
Index of Industrial Production	1967 =100	152.5	145.8	151.8	173.6
Capacity Utilization	%	85.7	79.5	82.6	87.0
Unemployment Rate	%	5.9	7.2	7.3	6.5
Private Housing Starts	mil. units	1.721	1.314	1.567	1.921
Car Sales	mil. units	10.8	8.7	9.6	12.2
Implicit GNP Price Deflator	1972 =100	165.5	180.8	198.8	288.4
Consumer Price Indes	1967 =100	217.5	246.2	276.2	421.8
Producer Price Index	1967 =100	236.2	270.6	312.2	449.3
Federal Deficit	bil. $	-11.2	-43.0	-43.6	-19.1
Personal Income	bil. $	1924.2	2117.5	2411.1	3703.5
Prime Rate	%	12.76	14.35	12.61	11.09
Mortgage Rage	%	10.60	13.06	12.41	10.90
Currency plus Demand Deposits	bil. $	363.8	378.9	4.2	526.8
Commercial and Industrial Loans	bil. $	290.5	312.7	331.4	419.7

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $42, in 1982, to $50 per barrel. In 1983, to $58 per barrel, in 1984, to $62 per barrel and in 1985, to $67 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983. Compared with the August 1980 forecast, higher price increases of energy items and substantially higher U.S. defense orders have been considered.

3. In the last months of this year, tightening of monetary policy is expected. Tight monetary policy will continue throughout 1981, and some relaxation will take place not earlier then 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton, and some other crops will be lower than those of the last year.

7. It is projected here that the rates of growth in 1980-82 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982	1983
West Germany	2.3%	2.2%	2.8%	3.0%
Japan	1.5%	1.6%	2.2%	2.8%
Italy	1.7%	1.5%	2.0%	2.4%
Great Britain	1.3%	1.4%	2.0%	2.4%
France	1.9%	2.0%	2.4%	2.7%

1.1 REAL GROWTH
(Table 1.10 on Page 12)

The economic news that has been coming in during the last month is fullfilling the forecasts that have been made by KEDI. The latest news has probably been surprising to many analysts.

First, preliminary reports show that GNP grew by 1 per cent in the third quarter as compared to the second quarter level. That quarter had shown a decline of 9.6 per cent from the first quarter. (As a memory refresher, the first quarter of this year really did show some growth: GNP then was 1.2 per cent above the prior period.) Consumer spending gains were given

the credit for much of the gain in the July-September period.

Factory, utility, and mine production went up by 1 per cent in September from the August level. The August rate of industrial output was 0.6 per cent above the July level. Much of this slow gain reflected a bit of recovery in the very troubled auto and construction fields.

As industrial production did go up some in both August and September, there was some improvement in capacity utilization. Still the 75.6 per cent operation rate was below the 85.2 per cent rate maintained in the like period of 1979.

New factory orders for durable goods were a bright spot in September. Such orders went up by 8.1 per cent from the August level. Although such orders did move downward slightly in August, they had gone up by over 11 per cent in July from the previous month. KEDI agrees with William Cox of the Commerce Department as he expressed the view that the July gain was the first month of an upturn and the September gain reinforces it, despite the August data.

The good old (but not always reliable) index of leading economic indicators managed to go up by 1.7 per cent in August. The September gain was estimated at 2.4 per cent largely attributed to a decline in layoffs from manufacturing jobs and a gain in building permits. That is the fourth month of gains for this index. It points to future growth and increased consumption and production.

New orders by manufacturers showed some gain in August over the July level. Unfilled orders also showed a slight gain.

A survey of buying agents for 225 companies revealed that they view the economy as getting better but are cautious due to inflation. The survey showed that almost half were putting off some capital spending due to the high cost of money and slow business conditions.

Another sign of movement in the economy is found in the increased rate of movement of corporate executives. After some decline during the downturn, firms involved in relocating executives report a return to the transfer rates of 1979 and early 1980, according to Louis Rukeyser's column. More companies have had to get into the real estate business to underwrite mortgage costs for those being transferred. The average cost of moving a family of four 1,000 miles has skyrocketed by 50 per cent to 35,000 from a year ago according to the head of the relocation firm, Homequity.

Retail sales were up by 0.6 per cent, inflation adjusted, in September. Economists at Citybank view the sales here as being even slower paced than that as the August estimate has been lowered. Townsend Greenspan, a consulting firm, voiced the view that there is no clean sign that the consumer sector is showing any strength in this recent data. KEDI forecast data indicate strength and continous growth in this area.

Without adjusting for inflation, but adjusting seasonally, retail sales in

September were up by 1.6 per cent over the August level. That was the fourth consecutive month that there have been modest gains in this area. Total retail sales in September were up by 4.4 per cent from the year-earlier level. Most of the gain was in nondurables.

It is important to note that there are even some glimmers of good news in some of the depressed areas of the economy. Steel production was up to about 7.77 million tons in September from the 7 million ton level in August. Still those amounts are well below typical monthly output of the last few years.

The belaguered auto industry which will continue to have loses, recorded some sales gains in early October. That was a first for gains since last January. However, the year-to-year gain of 12 per cent was not strictly comparable as new models were introduced in early October of this year and in late October last year. Auto assemblies in September were up from the August annual rate by 7 per cent but still 24 per cent lower than the year earlier figure.

The news concerning crops has not been very good. Estimates have again been cut. The latest Agriculture Department forecast indicates that the corn crop this year will be 17 per cent below last year's record harvest and the soybean harvest will be 21 per cent lower.

Overall, the news has indicated general improvement. The developments have been in line with projections that have been made here.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1408.6	1412.1	1420.7	1421.5
Index of Industrial Production	1967=100	152.5	152.2	144.6	141.2	144.7	145.8
Unemployment Rate	%	5.9	6.1	7.5	7.6	7.7	7.2
Capacity Utilization Rate	%	85.7	85.1	77.0	75.8	78.8	79.3
Private Housing Starts	mil. units	1.721	1.330	1.048	1.403	1.475	1.314
Car Sales	mil. units	10.8	9.5	7.7	8.7	8.9	8.7
Indicator	**Unit**	**1981**	**1981**				**1981**
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1421.5	1429.8	1443.6	1458.2	1476.5	1452.0
Index of Industrial Production	1967=100	145.8	148.3	150.1	152.6	156.0	151.8
Unemployment Rate	%	7.2	7.6	7.4	7.1	6.9	7.2
Capacity Utilization Rate	%	79.3	79.7	81.4	84.5	84.9	82.6
Private Housing Starts	mil. units	1.314	1.376	1.535	1.712	1.644	1.567
Car Sales	mil. units	8.7	8.7	9.0	10.1	10.5	9.6
Indicator	**Unit**	**1982**	**1982**				**1982**
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1452.0	1488.3	1508.3	1537.2	1554.7	1522.1
Index of Industrial Production	1967=100	151.8	159.7	162.3	164.6	166.8	163.4
Unemployment Rate	%	7.2	6.7	6.3	6.2	6.1	6.3
Capacity Utilization Rate	%	82.6	86.0	86.3	86.2	86.5	86.3
Private Housing Starts	mil. units	1.467	1.427	1.656	1.743	1.663	1.623
Car Sales	mil. units	9.6	10.3	10.9	11.0	11.1	10.8

* Historical Data

There is the view that the recovery is likely to be a "heads, you win--tails, I lose" situation. The outlook from that point of view presents a picture of recovery adding too much fuel to the fires of inflation, interest rates going up, and any recovery being thoroughly dampened and spiraling into another downturn.

KEDI does not subscribe to that line of reasoning. There will not be any rapid recovery. The slow pace of growth forecast here will not contain the seeds of its own destruction.

1.2 PRICES

(Table 1.20 on page 15, and Table 1.21 on page 16)

Due to the expected slowdown in grain, meat, and dairy products supplies gain during the rest of this year and in 1981, there will be additional increments added to food prices. This is the basic reason that the forecast here for price gains has been adjusted upward slightly compared to the previous forecast.

This Institute agrees with the forecast by those in the field that food prices will go up next year. In the spring, farmers were worried about a surplus of hogs and grain. The heat and long dry spell has changed that. Meat prices account for one-third of the consumer price index for food. Agricultural economists expect food prices to climb by 12 per cent in the first half of 1981.

Egg prices will continue to go up. The steep rises in the cost of chicken feed have driven more producers to take those hens to the soup kettle rather than lose any more money on egg production. (For the cost conscious buyer that read this, a dozen eggs weigh about one and one-half pounds.) If eggs sell for $1 a dozen--likely next year--that is about 67 cents a pound. That is still a cheaper source of protein than meat. As many scramble away from the meat counter to try to break even on many food budgets by breaking more eggs, some will enjoy quiches and omelets and others will cluck in dismay at the thought of eggs instead of meat for dinner.

As to nonfood prices, it is anticipated here that higher than average price rises will be seen for lumber, primary and nonferrous metals; mainly steel, iron, copper and aluminum. Also houses, cars, heating oil and gasoline will reflect above average rises in prices.

There have been sharp gains in the prices for lumber for many years now. The recent lull is only temporary. The cost of unharvested trees in the Northwest went up an average of over 300 per cent in the '70's. Buyers paying dearly for lumber now or for unharvested trees are betting on renewed strength in the housing market in the next few years. Again, this is one factor contributing to the projected higher increases in house prices.

Automobiles: the current prices are a shock to people that have not looked for a new car for a few years. The average GM car with extras now costs over $9,400. The prices for new cars in general are up about 20 per cent and will continue to rise as much as the federal guidelines allow or

Detroit can bend those guidelines due in part to their huge losses. It may be, again, that their loss and attempt to recoup some by charging more will be foreign makers gain if an increasing portion of Americans willingly or begrudgingly switch to foreign compact models, or decide not to buy a car at all.

In order to run those more costly cars, more costly gas will have to be used. U.S. energy chief Frank Zarb predicted this month that gasoline will cost $3 a gallon in 1985. (He also reminded people of his prediction that most scoffed at made in 1975 that gas would cost about $1.25 in 1980.) KEDI agrees with Mr. Zarb. (KEDI's prediction, published in September 1979, is that gas will cost approximately $1.50 at the end of 1980. The prediction of this Institute for the year 1983 is $2.80 per gallon, and for 1985 it will approach $5. The prediction that crude oil will go up to $100 a barrel in 1987 is viewed here as close to the reality.

KEDI has prepared a more detailed outlook for the consumer prices in the next two years. In Table 1.21 on page 16, prices are measured by the Consumer Price Index. It is well known that the Consumer Price Index (CPI) is not without its faults. We do not buy a new house every month or so, and consumer spending patterns vary. The index is heavily weighted regarding housing costs: CPI assumes the average cost of shelter takes a 44 per cent chunk out of personal income. On the other hand, it doesn't include personal income taxes, and "bracket creep" has been taking a larger bite for millions. Keeping these factors in mind, the CPI is useful for broad clues as to what is happening to prices.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	249.6	253.7	246.2
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	274.1	285.7	270.6
Implicit GNP Price Deflator	1972=100	165.5	174.5	179.0	182.9	186.9	180.8
Gross National Product	bil. $	2369.5	2520.8	2521.3	2583.0	2655.3	2570.1
Personal Consumption Expenditures	bil. $	1510.0	1629.5	1626.6	1681.8	1723.6	1665.4
Gross Private Dom. Investment	bil. $	387.3	387.7	368.5	346.0	363.7	366.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	242.2	242.2	272.1	280.4	287.9	276.2
Producer Price Index, NSA	1967=100	270.6	296.5	308.4	316.9	327.1	312.2
Implicit GNP Price Deflator	1972=100	180.8	190.9	195.2	201.8	207.1	198.8
Gross National Product	bil. $	2570.1	2729.5	2817.9	2942.6	3057.8	2885.2
Personal Consumption Expenditures	bil. $	1665.4	1762.9	1822.7	1937.9	2385.5	1922.3
Gross Private Dom. Investment	bil. $	366.5	375.5	394.5	605.1	425.2	400.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.2	295.0	300.2	310.1	319.4	306.2
Producer Price Index, NSA	1967=100	312.2	339.5	348.7	357.5	364.1	352.5
Implicit GNP Price Deflator	1972=100	198.8	209.1	213.8	216.9	222.2	215.8
Gross National Product	bil. $	2885.2	3112.0	3224.7	3349.6	3454.5	3285.2
Personal Consumption Expenditures	bil. $	1922.3	2036.1	2119.7	2211.9	2284.6	2163.1
Gross Private Dom. Investment	bil. $	400.1	439.8	457.9	475.1	497.3	467.5

* Historical Data

TABLE 1.21 CONSUMER PRICE INDEX

(1967=100, All Urban Consumers)

	1978	1979	1980	1981				1981	1982				1982
				1	2	3	4		1	2	3	4	
All Items	195.4	217.4	246.2	264.2	272.1	280.4	287.9	276.2	295.0	300.2	310.1	319.4	306.2
1. Food and Bever.	206.2	228.7	245.4	256.5	264.4	272.9	277.7	267.9	280.4	283.8	291.7	304.5	290.1
2. Housing:													
-Shelter	210.4	239.7	280.2	302.4	310.6	317.7	324.8	313.8	335.8	349.1	256.9	365.6	351.8
-Fuel and Utilities	216.0	239.3	276.5	298.9	314.0	323.6	331.9	317.1	343.4	356.9	364.6	377.0	360.5
-Households Furnish and Operation	177.7	190.3	205.5	219.1	223.2	225.5	229.1	224.2	235.6	241.7	247.8	251.3	244.4
3. Apparel and Upkeep	159.6	166.6	179.0	186.8	189.3	190.7	193.6	190.1	198.3	202.4	203.6	205.6	202.5
4. Transportation	185.5	212.0	250.0	268.7	281.0	291.7	299.9	285.3	308.9	315.1	321.0	326.3	317.8
5. Medical Care	219.4	239.7	265.9	273.2	283.7	296.1	308.4	290.4	311.2	315.1	319.0	323.2	317.1
6. Entertainment	176.2	187.6	207.1	221.5	227.2	233.7	238.3	228.4	243.0	249.6	253.7	256.9	250.8
7. Other Goods and Services	183.2	196.3	214.9	224.7	231.5	239.6	246.1	235.5	251.6	255.3	260.3	264.3	257.9

The price developments as shown in Table 1.21, do not present an encouraging picture. The price increases are 13.2 per cent in 1980, compared with 1979; 13.6 per cent in 1981, and 11.0 per cent in 1982. The Bureau of Labor Statistics estimates that an average family of four with total expenditures of $20,520 will have monthly spending as follows: food, $420; shelter, $383; transportation, $154; clothes and personal care, $139; medical care, $98; other consumption, $85; personal income tax $253; all other, including Social Security, $178. Comparing that distribution with one's own spending may be depressing. (It could be cheering especially if your a vegetarian in good health that doesn't smoke or drink and can jog to work.)

1.3 LABOR

(Table 1.30 on page 18)

The forecast here is basically unchanged. The overall projected unemployment rate for 1980 has been reduced just a bit from 7.27 to 7.22. The reader is referred to Table 1.30 on page 18.

Contrary to many forecasters, KEDI has never been predicting unemployment in the 8-9 per cent range for 1980. For 1981, it is expected here that the situation in the labor market will remain roughly the same overall; a year average of 7.24 but the quarterly data will show gradual improvement. For instance, the projection here for first quarter 1981 unemployment is 7.61 million and for the fourth quarter it is 6.90 million.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	97.2	97.9	97.5
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.8	94.6	94.1
Unemployment Rate	%	5.8	6.13	7.46	7.63	7.65	7.22

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.5	99.1	100.2	101.0	99.7
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.2	95.8	96.8	97.7	96.4
Unemployment Rate	%	7.22	7.61	7.39	7.05	6.90	7.24

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.7	101.8	103.0	103.9	104.8	103.4
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.4	98.5	99.6	100.5	101.5	100.0
Unemployment Rate	%	7.24	6.70	6.29	6.18	6.08	6.31

* Historical Data

The following industries will be the central ones to experience some declines in their rates of unemployment: steel, construction, and cars. Some improvement in demand for labor is also expected to occur in the defense industry, rubber and plastics, chemicals, machinery, and paper industries during 1981.

Average employment levels on about the same level next year as during this year are anticipated for mining, textiles, food, and appliances.

Although declines in the unemployment rate do show economic improvement, there is still the ongoing debate as to just how many people out there want to work but are not officially counted as they gave up looking after numerous rejections. A recent article in the Harvard Business Review questioned anew the assumption that most unemployment is due to short-term unemployment and rather rapid job turnover. The authors, Kim B. Clark and Lawrence Summers express the view that there simply are not enough jobs to go around. They estimated that for each of the 6 million unemployed by official reports in June, there was another person also without work but no longer counted as they had given up looking. KEDI's projections incorporate approximately the same ratio of "disguised" persons to those actively seeking employment.

1.4 HOUSING

(Table 1.40 on page 21)

The forecast by this Institute for the recovery from the slump in housing remains relatively optimistic. Recently released data documents this.

For one, housing starts went up by 9 per cent in September. That is the fourth consecutive month of gains. True, there was a jump in federally subsidized housing units but that wasn't the main part of the gain. A start is no less of a start for the construction worker because it is government financed.

Sales of used homes in September moved ahead by 10 per cent to a seasonally adjusted annual rate of over 3.3 million units from the August rate of 3 million. Demand for homes even with mortgage rates of 13 and 14 per cent indicate willingness to pay,and ability to finance such rates is not as weak as many thought.

Sales of new one-family homes were down by 4.9 per cent in August on a seasonally adjusted basis. It is expected that the September data will show improvement.

Also, in September there was a 14.7 per cent gain in new permits for housing construction over the prior month. Most of this gain was in permits for multifamily buildings.

KEDI does not share the view that housing will slow in the coming months because of high mortgage rates. The National Association of Home Builders predicted in late October that housing starts would drop to an annual rate of 1.3 million units in the fourth quarter from the 1.4 million rate of the third quarter and then rebound a bit next year.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil.	1.169	.801	.669	.973	.969	.853
Multifamily Housing Starts	mil.	.551	.529	.379	.430	.506	.461
Mobile Home Shipments	mil.	.283	.257	.180	.198	.197	.208
Housing Permits Issued	mil.	1.535	.965	.885	1.241	1.042	1.033
Construction Costs-Commerc.	1972=100	188.2	193.5	197.0	199.5	202.8	198.2
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	200.6	204.5	198.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.853	.894	.986	1.114	1.056	1.013
Multifamily Housing Starts	mil.	.461	.482	.549	.598	.588	.554
Mobile Homes Shipments	mil.	.208	.225	.271	.282	.296	.269
Housing Permits Issued	mil.	1.003	.998	1.245	1.467	1.416	1.282
Construction Costs-Commerc.	1972=100	198.2	209.1	217.3	221.5	231.7	219.9
Construction Costs-Resident.	1972=100	198.4	210.4	217.0	221.2	230.5	219.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.913	.869	1.024	1.089	1.005	.997
Multifamily Housing Starts	mil.	.554	.558	.632	.654	.658	.626
Mobile Homes Shipments	mil.	.269	.273	.314	.321	.301	.302
Housing Permits Issued	mil.	1.282	1.347	1.682	1.774	1.705	1.627
Construction Costs-Commerc.	1972=100	219.9	238.7	250.7	257.2	266.1	253.2
Construction Costs-Resident.	1972=100	219.8	241.3	249.7	255.6	265.4	253.0

* Historical Data

Some analysts are predicting a slowdown in housing in the next few months. KEDI does not agree. According to calculations here, there will be some slight improvement in the fourth quarter. In the September issue of the KEDI survey, the projection for the fourth quarter was 1.29 million starts. That has been reversed upward to over 1.4 million.

Also, this Institute forecasts a somewhat better showing by housing during 1981. Mr. Janis of the Federal Home Loan Bank Board predicts housing starts in 1981 will total 1.5-1.6 million. The U.S. League of Saving Associations uses 1.5. The KEDI estimate is now close to 1.6 million which is slightly below the 1979 level.

1.5 GOVERNMENT BUDGETS

(Table 1.60 on page 23)

As stated in Assumption number 8, a $35 billion tax cut was incorporated into the KEDI forecast as reported in the September issue. Prior to that time, a tax cut of $30 billion had been assumed.

As compared with the projection made last month, the forecast of revenue items has been slightly increased. This is due to improvements in general economic activity projected by KEDI for this quarter and for the next few years. The federal budget deficit has been increased for fiscal 1979-80 from an anticipated $58 billion to $60 billion. Over the long-term, a more significant reduction in that is not expected any earlier than 1983.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	242.9	249.0	257.4	247.3
Corporate Profit Tax Accruals	bil. $	78.5	86.8	65.6	70.2	76.0	74.7
Surplus./Deficit	bil. $	-11.2	-22.9	-49.2	-54.4	-45.6	-43.0
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	39.2	41.5	43.2	40.9
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.0	12.2	13.0	13.2
Surplus./Deficit	bil. $	24.7	24.6	19.5	19.5	20.2	21.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	247.3	269.7	90.3	309.5	320.7	297.6
Corporate Profit Tax Accruals	bil. $	74.7	80.9	97.4	101.5	105.4	96.3
Surplus./Deficit	bil. $	-43.0	-41.0	-46.1	-47.0	-40.3	-43.6
State and Local Governments:							
Income Taxes	bil. $	40.9	44.5	46.2	47.4	49.3	46.9
Corporate Profit Tax Accruals	bil. $	13.2	14.8	15.4	17.9	19.4	16.9
Surplus./Deficit	bil. $	21.0	21.1	23.3	24.9	26.8	24.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	297.6	331.2	341.5	351.9	362.3	346.7
Corporate Profit Tax Accruals	bil. $	96.3	111.7	118.9	124.1	127.5	120.6
Surplus./Deficit	bil. $	-43.6	-34.0	-28.7	-12.4	-19.0	-21.0
State and Local Governments:							
Income Taxes	bil. $	46.9	51.2	53.4	54.8	56.9	54.1
Corporate Profit Tax Accruals	bil. $	16.9	22.1	24.8	26.2	28.9	25.5
Surplus./Deficit	bil. $	24.0	27.4	29.4	31.6	32.4	30.2

* Historical Data

At that time, it appears that the deficit will be reduced by roughly $20 billion from the expected $40 billion in this calendar year, and $20 billion in calendar 1983. It will rise again after that time. Despite the efforts or lack of them on the part of the U.S. President, the wheels of government turn slowly, and the supply of red ink is as endless as the need and/or demand for government dollars.

The projected figures for state and local budgets have remained basically unchanged.

1.6 INCOME

(Table 1.60 on page 25)

The forecast data for income and components in Table 1.60 shows constant growth in all indicators during both 1981 and 1982. However, adjusted for inflation by a price deflation and population growth, the picture becomes rather grim and dim. There is no growth in real per capita personal disposable income in these years.

	1980	1981	1982
Real per capita personal disposable income (in thousands $)	4,650	4,589	4,623

In September personal income went up by 0.9 per cent. The August data on personal income showed there was no real change. That is, the 0.7 per cent rise was matched by the 0.7 rise in the personal consumption expenditures deflator. Private wages and salaries went up an estimated 0.8 per cent in September from the August level. Personal interest income was up by 0.6 per cent and transfer payments gained 1.7 per cent in this period.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil. $	1924.2	2057.4	2080.5	2141.1	2191.0	2117.5
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.9	1807.5	1838.8	1784.9
Compensation of Employees	bil. $	1459.5	1555.2	1564.2	1590.1	1658.7	1592.0
Corp. Profits After Tax	bil. $	144.6	158.0	127.1	128.0	133.4	136.6
Personal Saving	bil. $	73.2	64.4	86.3	83.3	95.1	82.3
Average Weekly Earnings	$	219.4	229.2	231.2	232.8	235.3	232.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2117.5	2258.6	2319.8	2546.1	2520.0	2411.1
Personal Dispos. Income	bil. $	1784.9	1894.3	1956.0	2070.2	2143.8	2016.1
Compensation of Employees	bil. $	1592.0	1718.8	1762.3	1872.6	1946.7	1825.1
Corp. Profits After Tax	bil. $	136.6	143.1	152.6	170.3	175.8	160.5
Personal Saving	bil. $	82.3	97.4	97.0	100.6	97.3	98.1
Average Weekly Earnings	$	232.1	238.6	242.6	245.9	250.1	244.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2411.1	2563.5	2648.1	2748.5	2833.6	2698.4
Personal Dispos. Income	bil. $	2016.1	2163.0	2258.3	2335.6	2409.0	2291.5
Compensation of Employees	bil. $	1825.1	1971.5	2058.9	2150.6	2245.3	2106.6
Corp. Profits After Tax	bil. $	160.5	180.9	185.0	190.8	191.8	187.1
Personal Saving	bil. $	98.1	98.2	96.4	91.3	94.4	95.1
Average Weekly Earnings	$	244.3	255.0	260.1	265.8	271.7	263.2

* Historical Data

The forecasts for corporate after-tax profits have been reduced slightly. The central factors here are the losses of automakers, low profits in the steel industry, construction, and chemicals. We expect that profits will show some improvement, in general, during the fourth quarter of this year and resume a less sickly trend in 1981 for the above industries.

If 1980 is used as a base year, 1980=100, (It has not been an outstanding year but it certainly has not been a real bummer.) then the following industries will show the main gains in profits according to calculations by this Institute: aerospace, +14%; airline, +8%; building materials, +15%; chemicals, +5%; food products, +14%; petroleum products, +20%; rubber, +21%; paper, +18%; steel, +17%; automakers, +17%; electrical equipment, +11%; textiles, +6%; railroads, +20%; utilities, +15%; banks, +9%; and last but not least (witness all the ads trying to get us to give up anything that is silver or gold, as if prices will never go up again) mining and metals, +11%. These percentages are not adjusted for inflation.

1.7 MONEY AND CREDIT

(Table 1.70 on page 28)

Although the money supply did decline some in the last part of September, in early October, the upward trend resumed. M1A moved ahead by $4.1 billion in the first week of October to a seasonally adjusted average of $385.8 billion. M1B, which is a broader measure, was up by just over $5 billion to an adjusted average of $409.7 billion. These gains fit into

the projections that have been made here. Although measures of weekly totals exaggerate change, the range of figures indicate the monthly total. The KEDI projection for M1A in the fourth quarter appears to be close to what will develop: namely M1A of about $390 billion.

KEDI expects that growth in the money supply will continue during the rest of the year and for the next few years beyond the targets set by the Feds. It is assumed here that the Federal Reserve will not repeat its rather unsuccessful (to put it mildly) experiment of March 14 to attempt to curb inflation by cutting the money supply. This Institute's projected rates of growth for the money supply are as follows:

	Increase in per cent over the previous year:		
	1980	1981	1982
M1A	+4.1	+9.3	+7.7
M2	+7.7	+9.5	+8.1

Both of these measures of the money supply indicate expansion well above the Fed's guideline of 3.5 - 6.0 per cent for long-term growth. Those targets are viewed here as not being too realistic. The projected data here show moderate growth which corresponds to the rather sluggish rate of recovery and the anticipated rate of inflation.

Recent data have shown that the demand for commercial and industrial loans as well as demand for consumer credit are on the rise again. As was mentioned earlier, consumer debt went up by $15 billion in August. Compared to the year-earlier total, such debt was up by 1.2 per cent. (Consumer debt had expanded by 13 per cent in 1979 as compared to the prior year.)

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	368.9	380.1	391.8	378.9
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1565.8	1604.3	1621.5	1583.8
Consumer Instal. Credit	bil. $	311.1	307.6	301.4	304.7	308.9	308.9
Commerc. and Industr. Loans at Banks	bil. $	290.5	302.7	301.7	304.9	312.7	312.7
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	122.5	127.5	127.5
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	482.7	490.3	490.3
Indicator	**Unit**	**1980**	**1981**				**1981**
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	378.9	397.8	411.7	419.6	427.8	414.2
Time Deposits, Adjusted, M2	bil. $	1583.8	1682.8	1724.9	1749.7	1778.6	1734.0
Consumer Instal. Credit	bil. $	308.9	315.1	321.3	325.7	331.4	331.4
Commerc. and Industr. Loans at Banks	bil. $	312.7	317.6	325.6	331.4	338.9	338.9
Negotiable Cert. of Deposits	bil. $	127.5	132.4	136.1	144.8	150.3	150.3
Mortgages at S & L Assns.	bil. $	490.3	496.2	501.8	512.4	520.3	520.3
Indicator	**Unit**	**1981**	**1982**				**1982**
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	414.2	433.6	442.9	450.7	458.7	446.5
Time Deposits, Adjusted, M2	bil. $	1734.0	1810.7	1853.4	1901.5	1937.4	1875.8
Consumer Instal. Credit	bil. $	331.4	338.9	349.5	359.7	370.4	370.4
Commerc. and Industr. Loans at Banks	bil. $	338.9	345.3	351.9	361.4	370.4	370.5
Negotiable Cert. of Deposits	bil. $	150.3	155.4	160.8	162.3	160.1	160.1
Mortgages at S & L Assns.	bil. $	520.3	530.2	538.3	546.2	560.9	560.9

* Historical Data

The gains in credit are not viewed here as red flags of danger. The view of some economists that see this as a cause of alarm and fright is not seen here. Added inflationary presuure from the monetary and credit sides are not going to result from this credit expansion. (On this Halloween night the ghosts and goblins of more economic gloom are dismissed by KEDI.) As has been stated here for many months, rather flat economic performances followed by moderate gains are anticipated.

Consumer installment credit outstanding went up a bit in August after four months of declines. The total outstanding was $303.3 billion - very close to the amount that was projected here.

1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.8 on page 31)

The forecast here remains basically unchanged when compared to the former issue. Recent hikes in interest rates have confirmed the projection made by KEDI months ago that at the end of this year, interest rates would be at high levels. Relief will not come before the second half of 1981.

The overly optimistic predictions of many economists made in prior months that expected the prime rate in September to fall below 10 per cent has never been the outlook of this Institute. Correspondingly, other interest rates have not been projected here at anything but rather high levels.

There are two principle reasons that projections here do not include any significant drops in interest rates. First, the recovery in 1981-82 that

is expected by KEDI will keep demand for loans at a high level. Secondly, other nations are fighting inflation and will keep doing that in the foreseeable future so their interest rates will remain high. Consequently, the U.S. interest rates cannot drop much below the level existing in other major countries for any sustained length of time.

KEDI's projection shows, that the high level interest rates will not significantly affect the performance of the stock market. As demonstrated in Table 1.80 on the Standard and Poor's 500 average index, no dramatic ups and downs are expected in 1981-1982 period.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Gross National Product in current dollars for the third quarter 1980 has been selected for comparison. Actual figures have been taken from the October 1980 release of the U.S. Department of Commerce, on the U.S. Income and Product in the third quarter of 1980. Forecast data is from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February, 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.84	11.31	11.12
Prime Rate	%	12.76	16.39	15.74	11.42	13.86	14.35
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.01	12.74	13.06
Aaa Bonds Rate	%	9.63	12.14	11.05	11.94	12.01	11.79
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.31	10.87	10.92
Standard & Poor's 500 Average	1941-43 =100	102.83	110.30	108.40	122.88	119.54	115.28

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.12	11.80	11.71	11.54	10.89	11.49
Prime Rate	%	14.35	13.54	12.81	12.14	11.93	12.61
Mortgage Rate, New Homes	%	13.06	12.71	12.46	12.31	12.14	12.41
Aaa Bonds Rate	%	11.79	12.24	11.83	11.31	11.05	10.87
Long Term Govt. Bonds Yield	%	10.92	10.95	11.02	10.87	10.64	10.87
Standard & Poor's 500 Average	1941-43 =100	115.28	119.85	122.43	126.71	130.14	124.78

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.49	10.65	11.04	11.95	11.87	11.38
Prime Rate	%	12.61	11.84	12.16	12.28	12.51	12.20
Mortgage Rate, New Homes	%	12.41	12.03	11.85	11.43	11.05	11.59
Aaa Bonds Rate	%	10.58	10.97	11.09	11.48	11.96	11.38
Long Term Govt. Bonds Yield	%	10.87	10.36	10.31	10.16	10.84	10.42
Standard & Poor's 500 Average	1941-43 =100	124.78	136.21	139.18	130.53	129.41	133.83

* Historical Data

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

GROSS NATIONAL PRODUCT
(Third quarter 1980, bil. of current $)

Actual: 2583.0

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Chemical Bank	21	2605.0	+ .9
The First National Bank of Chicago	22	2542.0	-1.6
Goldman Sachs	29	2604.0	+ .8
American Statistical Association and National Bureau of Economic Research	23	2550.0	-1.3
Georgia State University	24	2535.3	-1.8
Peter L. Bernstein	25	2527.0	-2.3
The UCLA National Business Forecast	26	2537.3	-1.8
Cyrus L. Lawrence, Inc.	27	2533.3	-2.0
Wharton Econometric Forecasting Assoc.	27	2592.3	+ .4
Alex Burkholder, WGN Continental Broadcasting Co.	28	2491.1	-3.6
Bankers Trust Company	28	2555.9	-1.0
The Fidelity Bank	30	2589.0	+ .2
KEDI	31	2607.5	+ .9
U.S. News and World Report, Economic Unit	32	2495.2	-3.4
Citibank	32	2570.6	- .5
Data Resources	33	2588.6	+ .2
Economic Division, Equitable Life Assurance Company	34	2569.2	- .5
Morgan Guaranty Trust Company	35	2576.0	- .1
Arpus Research Corporation	36	2547.4	-1.4

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President: Vladimir J. Simunek

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1.01 OVERVIEW — 1

The outlook for the next few years remains unchanged. (The power of the President to alter the economy is not as great as many believe it is.) Slow growth is foreseen. It is assumed that some action to lower interest rates will be taken. If not, there could be a slump in the first half of 1981.

1.02 ASSUMPTIONS — 4

Changes in assumptions concern the energy prices and defense orders.

DETAILED FORECASTS

1.1 REAL GROWTH — 6

The data this month show less that is positive as compared to the October issue. The news is more mixed. We can be thankful for improvement in consumer confidence and in industrial production (and in seeing the end of the left-over turkey for a while?).

1.2 PRICES — 9

The forecast for prices has been revised slightly. The outlook is not bright. As measured by the Consumer Price Index, inflation will be close to 12.6 per cent in 1981 as compared to 1980. Rates in the 10 per cent range will still exist through the first half of the 1980's.

1.3 EMPLOYMENT AND LABOR — 13

The unemployment rate seems to be holding in the middle 7 per cent range. The forecast here has been increased slightly, but KEDI still projects unemployment at rates lower than other major forecasters.

1.4 HOUSING — 15

Again, the surprise of the jump in interest rates has affected the forecast here. Despite the slight rise in housing starts in October, the forecast here has been slightly reduced.

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	Last month it was stated here that interest rates would remain at a high level and the prime rate would peak at 14 per cent. Mea culpa. KEDI has not been the only forecaster surprised by the jump up to an excess of 18 per cent. No steep decline will occur in 1981. By the end of that year, rates in the 15 per cent range are likely.	
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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The economic outlook for the early part of the 80's remains unchanged. The election results do not change the assumptions made here. The forecast of this Institute is as follows:

1981. The economy will grow at a slow rate in the 1.8 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.6 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 10 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.5 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 10 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

Looking at 1981 in more detail shows a weak first quarter. Construction

activity will slow considerably and car sales will be at a low level. Auto sales will not recuperate before the second half of the year.

The forecast shows that most industries will perform better in 1981 than in 1980. This is especially true for the following: machinery (electrical and nonelectrical), food, chemicals, paper, textiles, rubber and plastics, steel, aerospace, ordnance and accessories, machine tools, railroads, mining, and utilities. Housing activity will be slightly higher when compared with the current year. Unemployment will decline but not a great deal.

The inflation rate will remain at a high level for the first half of the year. Although still double digit, it will edge downward later in that year.

Much will depend on the policy of the Federal Reserve. If the high interest rates continue or go up to 19-20 per cent for a month or so, then a real slump, similar to what happened in the second quarter of this year will take place. It is assumed here that the Federal Reserve, in the first quarter 1981, will begin to take steps to push the interest rates down to more acceptable levels. A slump is not anticipated.

The forecast here is along the same lines as that of Louis Rukeyser for 1981; recovery at a slow rate and inflation still at a high rate. Although KEDI does see that inflation rate being a bit less high in 1981 than in 1980, still, it would be pretty hard to work up to a New Year's Eve toast

such as "Here's to the great news that prices will only go up in the 12 per cent range instead of over 13 per cent." It is unfortunate but factual to mention that government action does not lead to massive changes in the rate of inflation as most of the forces contributing to price gains are within the structure of the economy of this country, and, for the year 1981, in the existing Federal budget.

The anticipated economic growth of about 1.8 per cent at KEDI does exceed the average of the economists that were surveyed by Robert J. Eggert forecasting production as increasing barely over 1 per cent. We do agree with their view of the quarterly pattern as being pretty level in the first half of 1981 and showing more upward movement in the latter two quarters.

This Institute does not agree with economists that see the economic picture as getting less attractive before it begins to improve. The Wall Street Journal, (Nov. 6, page 25), quotes a Data Resources economists as saying, "there just isn't much that can happen over the next year or so" that would bring relief from the high rates of inflation, unemployment and interest rates. KEDI does not agree with that overview either. It is a matter of emphasis. Granted there will not be great economic change, but there will be some improvement as was noted earlier.

The view has also been expressed that sees any attack on inflation as something that would have some debilitating results for the economy in general. The view of this Institute is that any measures will not be in the drastic draconian division nor will their results be devastating.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1420.6	1447.6	1648.4
Index of Industrial Production	1967 =100	152.5	145.6	150.9	174.8
Capacity Utilization	%	85.7	78.7	81.7	87.2
Unemployment Rate	%	5.9	7.2	7.4	6.3
Private Housing Starts	mil. units	1.721	1.285	1.528	1.928
Car Sales	mil. units	10.8	8.6	9.4	12.3
Implicit GNP Price Deflator	1972 =100	165.5	181.0	199.5	269.5
Consumer Price Index	1967 =100	217.5	246.3	276.9	430.9
Producer Price Index	1967 =100	236.2	271.0	314.8	461.2
Federal Deficit	bil. $	-11.2	-45.5	-40.9	-21.4
Personal Income	bil. $	1924.2	2116.4	2371.8	3315.3
Prime Rate	%	12.76	15.26	15.24	11.02
Mortgage Rate	%	10.60	12.95	14.07	10.85
Currency plus Demand Deposits	bil. $	363.8	379.2	417.4	532.6
Commercial and Industrial Loans	bil. $	290.5	314.1	343.7	427.8

The following assumptions are part of this forecast. Compared with assumptions incorporated into the October, 1980, issue, the changes concern the Assumptions No. 1 and 2, and update of Assumptions No. 3,5, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $48, in 1982, to $56 per barrel. In 1983, to $62 per barrel, in 1984, to $70 per barrel and in 1985, to $75 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983. Compared with the October 1980 forecast, higher price increases of energy items and substantially higher U.S. defense orders have been considered.

3. Tight monetary policy will continue throughout 1981, and some relaxation will take place not earlier than in 1982 and 1983.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton, and some other crops will be lower than those of the last year.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984
West Germany	2.0%	2.4%	3.0%	3.5%
Japan	1.5%	2.1%	3.0%	3.9%
Italy	1.5%	2.0%	2.7%	3.0%
Great Britain	1.4%	2.0%	2.4%	2.6%
France	2.0%	2.4%	2.7%	2.8%

8. No drastic changes in existing international relationships are forecast.

1.1 REAL GROWTH

(Table 1.10 on page 8)

The economic news this month is more mixed. First, the good news. Industrial production went up in October by an adjusted 1.6 per cent over September. That makes three consecutive months of gain. The October increase was the largest since April of 1978. (Still, the October index of 146 per cent of the 1967 base was 4.4 per cent lower than the year-earlier level.)

KEDI shares the view expressed by economists at Wharton Econometric Forecasting

Associates that sales of nondurable goods will be nearly flat in the next few months but some measurable growth in durable goods sales will be seen. That would lead to gains in production and some overall economic growth.

The gain in consumer borrowing in September which exceeded the money consumers repaid also indicates that confidence in the economy is again growing. Credit card use is recovering from the punishment taken due to Federal Reserve action of March.

The Commerce Department has come out with their estimate of construction spending in 1981. That is also good news. They figure that such spending will increase by 18 per cent over the current year. Even though that is not adjusted for inflation, there is real gain there. KEDI is not so optimistic as the Commerce Department. The 1981 capital outlays are projected to be 16 per cent higher than this year. That still leaves adequate room for real growth.

Auto sales have been and still are in the bad news category. October auto sales were 5.1 per cent below the year-earlier total. Domestic makers experienced a sales decline of 7.9 per cent to about 661,000 units and imported autos sold amounted to roughly 183,000 which was 6.7 per cent above the total for the previous October. In terms of shares of the market, however, the imports accounted for 21.7 per cent of the market this October whereas it had been higher this summer. Still, in October of 1979, that share was less: 19.3 per cent.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: November 1980

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1408.6	1411.7	1417.4	1420.6
Index of Industrial Production	1967=100	152.5	152.2	144.6	141.5	144.2	145.6
Unemployment Rate	%	5.9	6.1	7.5	7.6	7.7	7.2
Capacity Utilization Rate	%	85.7	85.1	77.0	75.4	77.1	78.7
Private Housing Starts	mil. units	1.721	1.330	1.048	1.402	1.361	1.285
Car Sales	mil. units	10.8	9.5	7.7	8.7	8.6	8.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1420.6	1424.1	1439.5	1454.8	1472.1	1447.6
Index of Industrial Production	1967=100	145.6	147.1	149.3	152.0	155.1	150.9
Unemployment Rate	%	7.2	7.7	7.5	7.2	7.0	7.4
Capacity Utilization Rate	%	78.7	78.2	80.5	83.7	84.3	81.7
Private Housing Starts	mil. units	1.285	1.322	1.505	1.661	1.625	1.528
Car Sales	mil. units	8.6	8.6	8.9	9.7	10.2	9.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1447.6	1485.6	1507.2	1536.4	1554.1	1520.8
Index of Industrial Production	1967=100	150.9	158.9	161.8	164.0	166.7	162.9
Unemployment Rate	%	7.4	6.8	6.6	6.5	6.2	6.5
Capacity Utilization Rate	%	81.7	85.1	86.3	86.3	86.4	86.0
Private Housing Starts	mil. units	1.528	1.441	1.674	1.786	1.765	1.666
Car Sales	mil. units	9.4	10.1	10.6	10.8	11.0	10.6

* Historical Data

Indications are that in November retail sales will be flat and auto production will decline. Also, construction activity will slow.

Again, much will depend on the interest rates policy of the Federal Reserve. If it continues with high interest rates, a slump is likely in the first months of 1981. It is expected here that some reduction in interest rates will forestall such a slump.

2.0 PRICES

(Table 1.20 on page 12)

Compared with the last forecast, the price indicators have been changed a bit. Year-to-year percentage changes in the CPI follow:

1980	+13.4
1981	+12.6
1982	+11.2
1983	+10.5
1984	+10.0

(In the last issue there was an error. It was stated that the projection for the Consumer Price Index change in 1981 from 1980 was 13.6 per cent. That should have read 12.6 per cent in that issue. As can be seen the revised forecast is just a bit lower at 12.6.)

The forecast concerning food prices in 1981 is maintained. The rise there there will be 10-11 per cent above the 1980 level.

The Agriculture Department expects food prices to go up at a higher rate. Led by meat and poultry, they anticipate the 1981 gain in retail food prices will be 12.2 per cent. As economists there see it, meat and poultry will go up by 15 to 20 per cent. As people shift more towards eggs, incredible, edible egg prices will also gain. One can speculate as to whether or not the expected rise of 22 per cent in sugar prices will lead people to cut down on sweets.

Contributing to price gains is the fact that grain production in both this year and last year declined. Reserve stocks have been declining. An Agriculture Department economist notes that foreign nations will likely be depending on the U.S.A. to provide for 15 per cent of their agricultural needs by 1985 whereas that percentage was only 2 about 30 years ago. Meeting that demand will, naturally, add to the costs. For 1982, it is expected here that food prices will go up at a slower rate of 7-8 per cent. (That isn't much comfort to those with little flexibility in their income and growing children besides.)

In terms of recently released data confirming price hikes, there was a rise of 1.9 per cent in the prices that farmers received for their products in November as compared to October. The September to October rise had been at a lower rate of 0.4. Food prices rose an adjusted 0.5 per cent in the same period.

Wheat prices have gone up about 25 per cent since early summer. This year's record production did not keep up with demand and wheat stocks went down by

200 million bushels to the 900 million range. The weather that led to the poor grain and soybean crops has been of benefit to some--the minority of farmers whose crops were not affected. Since the first part of June the price of corn has gone up over 35 per cent and soybeans have gained over 45 per cent.

The oversupply of potatoes last spring has gone. Prices have risen substantially since late spring. The cost of producing a pound of potatoes has risen quite a bit in recent years due to fuel and fertilizer price hikes but future prices for spring delivery have jumped and that encourages more potato planting. The wholesale price for Maine potatoes was under 3 cents in May and reached above 5 cents in early November. The April-delivery futures has gone up to 15 cents.

Continued sharp increases in industrial prices are anticipated by KEDI. Producer prices for finished goods went up by 0.8 per cent in October from the prior month, seasonally adjusted. Before adjustment, such prices went up by 1.3 per cent to 252.2 per cent of the 1967 average. On a year-to-year basis, the price gain was 12.5 per cent.

According to a survey of buying managers, half reported paying more for materials in October whereas in September, 39 per cent reported paying more. Only 2 per cent reported paying less.

During 1981, the highest price gains are likely to be in energy related items. That has been true in recent years and will continue to be true. For

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979 *	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	249.6	254.1	246.3
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	272.3	284.8	269.9
Implicit GNP Price Deflator	1972=100	165.5	174.5	179.0	183.2	187.1	181.0
Gross National Product	bil. $	2369.5	2520.8	2521.3	2586.5	2652.0	2570.2
Personal Consumption Expenditures	bil. $	1510.0	1629.5	1626.6	1683.3	1710.3	1662.4
Gross Private Dom. Investment	bil. $	387.3	387.7	368.5	348.4	366.7	367.8

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.3	263.4	273.5	281.9	288.8	276.9
Producer Price Index, NSA	1967=100	269.9	299.4	311.5	318.7	329.6	314.8
Implicit GNP Price Deflator	1972=100	181.8	191.7	196.0	202.4	207.8	199.5
Gross National Product	bil. $	2570.2	2730.0	2821.4	2944.5	3059.0	2888.7
Personal Consumption Expenditures	bil. $	1662.4	1763.5	1826.2	1919.7	2029.7	1884.8
Gross Private Dom. Investment	bil. $	367.8	376.5	393.7	408.1	423.3	382.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.9	297.1	302.6	312.0	321.3	308.3
Producer Price Index, NSA	1967=100	314.8	339.6	349.2	358.6	366.3	353.4
Implicit GNP Price Deflator	1972=100	199.5	210.2	214.1	217.4	223.4	216.3
Gross National Product	bil. $	2888.7	3122.7	3226.9	3340.1	3471.9	3290.4
Personal Consumption Expenditures	bil. $	1884.8	2048.8	2121.9	2202.5	2301.9	2168.8
Gross Private Dom. Investment	bil. $	382.9	434.9	452.9	468.1	482.3	459.6

* Historical Data

example, by the end of next year, it is likely that we all will be paying about $1.80 for a gallon of gas. By the end of 1984, a price in the $3.00 is more likely. (It is very easy to find incentives to walk, ride the bus or help start a bus company, combine errands, or stay home and eat and pursue other activities by candlelight.)

Mr. Eggert's survey of economic forecasters revealed that, on the average, the change expected in the Consumer Price Index in 1981 over this year was 10.2 per cent. KEDI has been maintaining for many months that 1981 will bring us inflation in the CPI in the 12 per cent range or more. As was mentioned, that estimate here is now at 12.6 per cent.

1.3 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The Labor Department reported that unemployment in October was at 7.6 per cent compared to the September rate of 7.5. As such reports are based on preliminary data samples and because the change is just one-tenth of a per cent, this is not seen here as a change but as a holding pattern. Indications are that for this month the figure will be about the same, possibly a bit lower. The average workweek for nonfarm workers was at 35.1 hours as compared to the prior month estimate of 35.2.

The forecast for the unemployment rate in 1981 has been increased slightly here due mainly to the recent developments in interest rates. (The jumps in interest rates that have been occurring of late were not anticipated by

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2 *	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	97.2	97.8	97.4
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.8	94.5	94.0
Unemployment Rate	%	5.8	6.13	7.46	7.63	7.72	7.24

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.4	98.4	99.0	100.0	100.9	99.6
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.0	95.1	95.7	96.6	97.6	96.3
Unemployment Rate	%	7.24	7.70	7.52	7.19	6.98	7.35

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.6	101.7	102.7	103.5	104.7	103.2
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.3	98.4	99.3	100.1	101.4	99.8
Unemployment Rate	%	7.35	6.76	6.59	6.48	6.21	6.51

* Historical Data

KEDI.) These affect the forecast as there will be some negative impact on overall economic activity.

Still, the outlook here is relatively optimistic when compared to some other forecasters.

PROJECTED UNEMPLOYMENT RATES

Year and Quarter	KEDI	Wharton	Michigan	Chase	Data Resources
1980 4th	7.6	8.1	8.9	8.3	7.8
1981 1st	7.7	8.0	9.2	8.4	7.7
2nd	7.5	8.0	9.2	8.4	7.6
3rd	7.2	7.9	9.0	8.3	7.5
4th	7.0	7.8	8.8	8.3	7.3

1.4 HOUSING

(Table 1.40 on page 17)

Housing starts went up a bit in October to an adjusted rate of 1.569 million. This is about the level they were at the first of this year. Multifamily starts went up in October while single-family construction declined. Total housing starts for this October were 8.2 per cent lower than they were one year ago. The National Association of Home Builders has changed its forecast for total housing starts this year to 1.22 million (as compared to 1.75 million in 1979). The KEDI estimate is now at 1.28 which is slightly less than last month's projection here that came to 1.31 million. Permits

issued were down by 9.8 per cent on an adjusted basis, from the October of 1979.

In mid-November, the Dodge Report showed that newly contracted construction work in September came to a total value of $13.1 billion which was one per cent lower than the total for the year-earlier figure. There had been gains here for the prior three months. September contracts show a leveling.

Again, the interest rate leaps during the last month are the major reason why the forecast here has been slightly revised in a downward direction when compared with the previous issue. For instance, last month the estimate here for fourth quarter single family housing starts was at an adjusted .969 million. That has been changed to .926. For 1981, the projection here for such starts was at 1.013 million and that has been changed to a slightly lower figure of .992 million single-family starts. The reader is referred to Table 1.40 on page 17.

It is assumed here that interest rates will return to a more "normal" level in March and April of 1981. Still the high rates that exist now will put a crimp in the housing industry. For the time being, the forecast here for housing activity in 1981 has been lowered by approximately 2 per cent. If the present abnormally high interest rates persist and no corrective attempts are made at the Federal Reserve level, there may be a much sharper decline in this area.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Single-Family Housing Starts	mil.	1.169	.801	.669	.971	.926	.842
Multifamily Housing Starts	mil.	.551	.529	.379	.428	.435	.443
Mobile Home Shipments	mil.	.283	.257	.180	.192	.174	.201
Housing Permits Issued	mil.	1.535	.965	.885	1.240	1.006	1.024
Construction Costs-Commerc.	1972=100	180.2	193.5	197.0	200.4	203.1	198.5
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	201.2	204.8	198.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.842	.863	.976	1.081	1.049	.992
Multifamily Housing Starts	mil.	.443	.459	.529	.580	.576	.536
Mobile Homes Shipments	mil.	.201	.189	.236	.267	.281	.243
Housing Permits Issued	mil.	1.024	.954	1.136	1.428	1.410	1.232
Construction Costs-Commerc.	1972=100	198.5	209.9	218.7	223.1	235.2	221.7
Construction Costs-Resident.	1972=100	198.6	211.6	218.4	222.5	233.8	221.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.992	.879	1.035	1.126	1.094	1.034
Multifamily Housing Starts	mil.	.536	.562	.639	.660	.671	.633
Mobile Homes Shipments	mil.	.243	.270	.315	.326	.322	.308
Housing Permits Issued	mil.	1.232	1.361	1.743	1.826	1.741	1.668
Construction Costs-Commerc.	1972=100	221.7	240.3	254.6	263.7	272.6	257.8
Construction Costs-Resident.	1972=100	221.6	240.5	252.4	261.8	270.8	256.4

* Historical Data

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1.5 BUDGETS

(Table 1.50 on page 19)

In this issue, there are some revisions in the forecast for the Federal and state budgets for 1981 and 1982. The reader is referred to Table 1.50 on page 19. For 1981, the projection for the federal deficit has been changed to $45.5 from the earlier estimate of $43.6. The 1982 deficit has been increased by $3 billion to $40.9 billion.

An assumption that has been maintained here has proven to be correct; namely, no tax cut in 1980. The projection assumes that there will be a tax cut of about $40 billion in 1981, a $30 billion tax reduction in 1982, and $20 billion in 1983. That is the same amount as has been incorporated into the assumptions since August.

State and local surpluses have been revised upwards. This is due to the higher than anticipated gains in corporate and income taxes.

1.6 INCOME

(Table 1.60 on page 20)

Corporate profits recovered in the third quarter. The Commerce Department reported that after-tax corporate profits went up by 7.9 per cent in the third quarter from the prior quarter. The forecast by KEDI has been on target here. The amount projected here for such profits was $137.1 million and the recently released data shows that the amount was $137.2.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	242.9	249.2	257.9	247.5
Corporate Profit Tax Accruals	bil. $	78.5	86.8	65.6	71.9	75.8	75.0
Surplus./Deficit	bil. $	-11.2	-22.9	-49.2	-58.4	-51.5	-45.5
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	39.2	41.5	43.3	40.9
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.0	13.3	13.0	13.5
Surplus./Deficit	bil. $	24.7	24.6	19.5	23.9	24.5	23.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	247.5	271.4	292.5	311.4	323.5	299.7
Corporate Profit Tax Accruals	bil. $	75.0	80.1	97.7	101.9	106.1	96.5
Surplus./Deficit	bil. $	-45.5	-42.6	-47.5	-42.1	-31.5	-40.9
State and Local Governments:							
Income Taxes	bil. $	40.9	44.6	46.4	47.8	49.7	47.1
Corporate Profit Tax Accruals	bil. $	13.5	14.9	15.5	18.1	19.7	17.1
Surplus./Deficit	bil. $	23.1	24.8	23.8	25.6	27.8	25.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	299.7	334.3	344.2	353.6	365.4	349.4
Corporate Profit Tax Accruals	bil. $	96.5	111.9	119.4	124.8	127.9	121.0
Surplus./Deficit	bil. $	-40.9	-30.7	-27.5	-20.6	-17.1	-24.0
State and Local Governments:							
Income Taxes	bil. $	47.1	51.5	53.7	55.9	57.8	54.7
Corporate Profit Tax Accruals	bil. $	17.1	22.5	24.9	26.4	29.0	25.7
Surplus./Deficit	bil. $	25.5	28.9	30.3	32.5	33.8	31.4

* Historical Data

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Personal Income	bil. $	1924.2	2057.4	2080.5	2144.6	2183.7	2116.4
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.9	1810.5	1837.4	1785.3
Compensation of Employees	bil. $	1459.5	1555.2	1564.2	1591.5	1657.3	1592.1
Corp. Profits After Tax	bil. $	144.6	158.0	127.1	137.2	144.6	141.7
Personal Saving	bil. $	73.2	64.4	86.3	84.9	91.2	81.8
Average Weekly Earnings	$	219.4	229.2	231.2	232.9	235.6	232.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2116.4	2250.0	2308.2	2426.9	2502.1	2371.8
Personal Dispos. Income	bil. $	1785.3	1887.8	1931.5	2029.4	2100.7	1987.4
Compensation of Employees	bil. $	1592.1	1708.5	1743.5	1845.7	1914.2	1803.0
Corp. Profits After Tax	bil. $	141.7	147.9	157.5	172.1	178.7	164.1
Personal Saving	bil. $	81.8	93.1	95.6	99.7	95.4	96.0
Average Weekly Earnings	$	232.2	239.8	243.1	247.2	252.3	245.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2371.8	2537.1	2615.8	2695.9	2789.0	2657.7
Personal Dispos. Income	bil. $	1987.4	2130.9	2206.8	2264.3	2341.7	2235.9
Compensation of Employees	bil. $	1803.0	1951.3	2011.6	2092.1	2180.5	2058.9
Corp. Profits After Tax	bil. $	164.1	184.3	189.2	197.2	203.4	193.5
Personal Saving	bil. $	96.0	96.3	95.2	90.4	93.1	93.8
Average Weekly Earnings	$	245.6	256.8	262.4	268.1	275.3	265.7

* Historical Data

In the third quarter, private workers' wages and salaries went up by 2.2 per cent, but keeping inflation in mind, purchasing power continues to be eroded. Personal income increased by 1.1 per cent in October and spending also went up by 1.0 per cent. The October savings rate was the same as in September. The forecast data for Personal Income and Components show constant growth throughout 1981 and 1982. However, adjusted for inflation and for population changes, the outlook here is rather bleak. Real per capita disposable income will keep declining in the next three years. In 1984, some improvement will take place.

This Institute's forecast for earnings, dividends and related items remains basically unchanged when compared with the previous forecast.

1.7 MONEY AND CREDIT

(Table 1.70 on page 23)

Developments about money and credit in November confirmed the assumption made here (Assumption No. 4) that the Federal Reserve Board should, finally, start to set limits on monetary growth by long-term commitments instead of just using short-term ones as has been true in the past.

In the opinion of this Institute, the Federal Reserve has failed this year. There is agreement here with the view expressed by Milton Friedman. When speaking of the fluctuations in M_{1-B} in the past two decades, he said;

> There is no three-month period in those two decades when

> the money supply fell as sharply as it did from February to May. There is no five-month period in those two decades when the money supply rose as rapidly as it did from May to October. (Newsweek, Dec. 1, 1980, page 78)

When comparing the targets, set up by the Federal Reserve in 1979 for monetary expansion this year, it can be seen that growth of the various components of the money supply did not deviate too much, on the average, during 1980. However, what has been damaging to the economy? THE WIDE FLUCTUATIONS have caused some havoc. These can be avoided only by long-term commitments. There are indications that the Feds will have to move in that direction. At least some of Reagan's advisors favor such goals either through action by the Federal Reserve or through legislation setting targets if necessary.

In terms of growth of monetary aggregates for 1981 and 1982, the forecast here remains about the same with slight increases made since the last issue. The following are percentage increases from each prior year in two money supply indicators.

	1980	1981	1982
M1A	+4.2	+9.6	+7.9
M2	+7.9	+9.7	+8.4

Unlike Mr. Friedman, "a renewed recession" is not seen as likely if the monetary growth is slowed. It's a matter of degree. It is not expected that such growth will be sharply curtailed, but that it will be harnessed

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	368.9	380.1	393.1	379.2
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1565.8	1604.3	1626.3	1585.0
Consumer Instal. Credit	bil. $	311.1	307.6	301.4	304.7	309.4	309.4
Commerc. and Industr. Loans at Banks	bil. $	290.5	302.7	301.7	304.9	314.1	314.1
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	123.1	128.1	128.1
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	482.7	487.1	487.1
Indicator	**Unit**	**1980**	**1981**				**1981**
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	379.2	400.1	413.4	423.5	432.7	417.4
Time Deposits, Adjusted, M2	bil. $	1585.0	1685.9	1730.7	1757.2	1789.7	1740.9
Consumer Instal. Credit	bil. $	309.4	317.9	324.6	328.9	336.5	336.5
Commerc. and Industr. Loans at Banks	bil. $	314.1	320.4	328.7	335.6	343.7	343.7
Negotiable Cert. of Deposits	bil. $	128.1	134.5	138.7	145.2	149.4	149.4
Mortgages at S & L Assns.	bil. $	487.1	490.3	499.1	510.5	517.4	517.4
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	417.4	436.8	447.5	456.5	467.9	452.2
Time Deposits, Adjusted, M2	bil. $	1740.9	1824.3	1865.7	1914.1	1950.7	1888.7
Consumer Instal. Credit	bil. $	336.5	340.6	353.1	364.2	375.7	375.7
Commerc. and Industr. Loans at Banks	bil. $	343.7	348.7	355.6	366.7	377.9	377.9
Negotiable Cert. of Deposits	bil. $	149.4	151.6	153.1	158.7	162.3	162.3
Mortgages at S & L Assns.	bil. $	517.4	525.7	537.4	548.3	565.2	565.2

* Historical Data

and put on less crooked path to reach the approximate same destination traveling a straighter and smoother route.

Consumer installment credit went up by an adjusted 6.7 per cent in September from the August level. For the third quarter, such credit expanded at an annual rate of 1 per cent. In the second quarter, there had been a drop of 11.5 per cent. (Remember the restrictive action in March.) As compared with the previous forecast, the data have been slightly increased.

1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The projection here of interest rates in the fourth quarter of 1980 has been revised upwards. That is not surprising considering that KEDI and others were surprised by the skyrocketing rates of this month.

Unlike many forecasters, a drastic decline in the interest rates is not expected in December or January by this Institute. In 1981, interest rates will decline at a gradual pace. In the new forecast here, the three month average prime rate in the fourth quarter this year, will be in the 17.5 per cent range. (That assumes a 19-20 per cent rate during December.) At the end of 1981, it will move down a bit more to the 14 per cent range.

Calculations show, that a 20 per cent prime rate (and correspondingly high interest rates in other areas) continuing through January will lead some

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.84	13.62	11.70
Prime Rate	%	12.76	16.39	15.74	11.48	17.42	15.26
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.14	13.16	12.95
Aaa Bonds Rate	%	9.63	12.14	11.05	11.95	12.43	11.89
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.31	11.04	10.96
Standard & Poor's 500 Average	1941-43 =100	102.83	110.30	108.40	122.88	117.23	114.70

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.70	13.23	12.80	11.75	11.20	12.25
Prime Rate	%	15.26	16.42	15.30	15.18	14.05	15.24
Mortgage Rate, New Homes	%	12.95	13.05	12.87	12.52	12.23	15.24
Aaa Bonds Rate	%	11.89	12.10	11.94	11.58	11.14	11.69
Long Term Govt. Bonds Yield	%	10.96	11.02	10.94	10.91	10.73	10.90
Standard & Poor's 500 Average	1941-43 =100	114.70	118.94	122.87	126.83	129.55	124.54

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.25	10.71	10.78	11.43	11.72	11.16
Prime Rate	%	15.24	13.24	13.75	14.23	15.07	14.07
Mortgage Rate, New Homes	%	12.67	12.01	11.87	11.40	11.06	11.58
Aaa Bonds Rate	%	11.69	11.04	11.14	11.53	11.87	11.39
Long Term Govt. Bonds Yield	%	10.90	10.68	10.25	10.07	10.14	10.29
Standard & Poor's 500 Average	1941-43 =100	124.34	135.92	139.84	133.54	129.82	134.78

* Historical Data

significant decline in economic activity. It is not anticipated that such events will take place. The views expressed by some bank economists that interest rates may still move up a bit but decline slightly at the end of the year is shared here.

The forecast concerning the stock market has remained essentially unchanged (calculations vary less than 1 per cent this month as compared to last month).

Overall, the interest rates that we all pay will remain at high levels in the near future. In the latter half of 1982 there will be some decline, but a memory such as a 6 per cent mortgage will remain just a memory.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Producer Price Indexes for the third quarter 1980 have been selected for comparison. Actual figures have been taken from the October 1980 issue of the Survey of Current Business, blue pages, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data is from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February, 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

PRODUCER PRICE INDEXES
(Third quarter 1980, 1967=100)

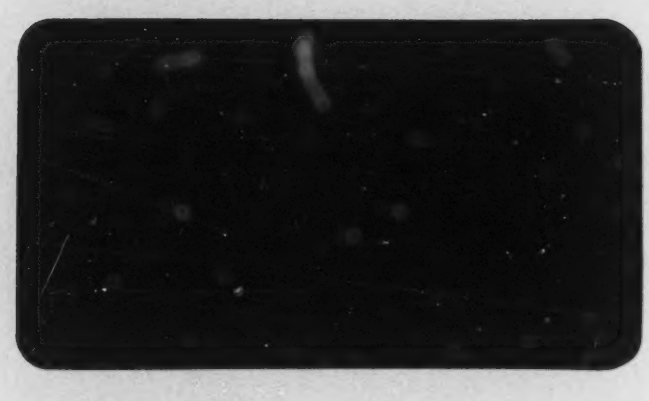
Actual: Producer Price Index, All Items: 272.3
Finished Goods: 248.2

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Producer Price Index, All Items:			
University of California	26	269.7	-1.0
KEDI	31	273.5	+ .4
Data Resources	33	267.6	-1.7
Finished Goods:			
Chemical Bank	21	240.6	-3.1
Cyrus J. Lawrence, Inc.	27	233.6	-5.9

The short list above includes all the forecasters that calculate producer prices and are included in the sources used here.

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

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Vol.6, No. 7, December 30, 1980

KEDI ECONOMIC SURVEY

U.S.ECONOMIC OUTLOOK FOR 1981

December 30, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Student Center, KSU Campus, Kent, Ohio, 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

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KEDI December 30, 1980

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	As measured by the Index of Industrial Production, the KEDI forecast for the following industries show the most growth: primary metals, plastics, chemicals and products, mining and both electrical and nonelectrical machinery, and ordnance and accessories. Foreign trade will be aided by our grain exports.	
	Although there was some good news in late 1980 data for new factory orders, durables orders, and construction spending, auto sales continue to be low and consumer confidence declined.	
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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The first of the year often begins with resolutions, some regrets and, hopefully, a bit to ponder with some rejoicing. KEDI looks back to the forecast made a year ago, and overall, that provides satisfaction with the general accuracy of it. To quote from the December KEDI issue of 1979, page 3; "KEDI's outlook for 1980 is not exactly rosy: continued high inflation and a mild downturn followed by sluggish economic growth." On page 5 of that same issue, the following statement was made: "In general, KEDI predicts the average output will be slightly below the level of 1979, unemployment will go higher, and inflation will be a little more severe this year."

Due to the revisions going on in the Commerce Department for Income and Product data all the way back to 1929, actual figures aren't repeated here as they aren't strictly comparable. This issue has been delayed as tables here were being updated to incorporate those changes first announced December 23.

Looking ahead now to 1981 does not provide rejoicing about the economy. However, there is some good feeling as a bit of growth is better than none at all. Overall, KEDI forecasts that 1981 will be a better year than 1980. Adjusted for inflation, GNP will expand at a rate of 1.7 per cent in contrast to the estimate of the decline in 1980 of 0.1 per cent. This forecast is in line with the majority of economists looking at 1981.

Two distinct halfs of 1981 are forecast.

1. The first half of the year will be essentially flat with good performance by some industries and declines and some troubles in others. The main increases will be in machinery, chemicals, ordnance and accessories, aircraft and space, coal, steel, iron, aluminum, and plastics. Fluctuations up and down will be the norm for automobiles, housing, clay construction products, textiles, appliances, apparel, and furniture.

2. In the second half of the year, the economy will pick up, and growth will spread to all industries. There will be improvement in the auto industry, substantial gains in the output of food, appliances, paper and products, and rubber. Housing will remain depressed. Crop production will exceed the 1980 level by roughly 3 per cent--assuming no calamitous weather conditions.

Demand and Confidence. Consumer demand will remain cautious. It will increase somewhat after the first quarter of 1981. Purchases of consumer durables will rise considerable starting in the second quarter and stay at a fairly high level the rest of the year. Business confidence will remain strong during the year.

Personal Consumption. This will increase by 1.5 per cent during 1981 as compared to 1980. The main areas of gain which will occur in the second part of the year will be in consumer durables such as appliances, autos, and furniture.

Business Capital Spending. This Institute has an optimistic outlook. As compared with 1980, capital outlays are expected here to gain by 14 per cent unadjusted for inflation.

Foreign Trade. Grain exports will be mainly responsible for an improved performance in foreign trade. Such exports will grow by 10 per cent as compared to 1980. Oil imports will rise but not significantly.

Prices. KEDI projects the inflation rate at 12.3 per cent for 1981 as measured by the Consumer Price Index. Food prices will rise by 11 per cent during the year. A main contributor to the price index gain (and to the lowering of thermostats) will be the cost of energy: it will go up by approximately 17 per cent. (Flannel nightgowns have gotten prettier--romance doesn't have to decline just because the room temperature of the energy conscious does.)

On Christmas eve (not much of an early present), The Wall Street Journal published an article about economists' view of 1981. KEDI agrees with the following views of a fairly stagnant first half and growth in the latter part of the year. Typical was the view of Lawrence Chimerine of Chase Econometrics that the economy will be close to flat in the first half of the year. Those forecasters consulted by Blue Chip Economic Indicators pointed to an average of a tiny decline in the first quarter of 0.1 per cent in U.S. output and a gain in the second quarter of 1.8 per cent.

Malcome Baldrige, Reagan's Secretary of Commerce, also expressed the view that there will be some decline in the first quarter of the year.

KEDI also agrees with the OECD view that recovery will be weak in 1981--especially in the first half of the year for both the industrialized and the less developed nations. The exception is the OPEC nations. (When you've got it, flaunt it.)

This Institute does not agree with the more pessimistic views of the following: A Goldman, Sachs & Co. partner that looks to marked decline in January, and the president of Merrill Lynch Economics viewing an extended recession in 1981.

Concerning the long term forecast for 1981 through 1984 made in the last issue it is repeated here. The only changes are minor fractional ones for inflation and growth in 1981.

1981. The economy will grow at a slow rate in the 1.7 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.4 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3.2 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 10 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.8 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 10 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

The KEDI forecast is highlighted in Table 1.0 on the following page.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: December 198

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.4	1505.6	1555.2	1668.7
Index of Industrial Production	1967 =100	146.1	151.6	161.3	175.2
Capacity Utilization	%	78.5	81.3	86.1	87.3
Unemployment Rate	%	7.2	7.4	6.5	6.3
Private Housing Starts	mil. units	1.321	1.483	1.770	1.936
Car Sales	mil. units	8.6	9.4	10.6	12.4
Implicit GNP Price Deflator	1972 =100	177.1	192.3	206.9	270.0
Consumer Price Index	1967 =100	246.1	276.8	306.8	431.6
Producer Price Index	1967 =100	271.0	305.3	336.7	465.4
Federal Deficit	bil. $	-38.4	-52.9	-40.1	-22.1
Personal Income	bil. $	2128.6	2383.5	2635.1	3314.9
Prime Rate	%	15.43	15.68	12.65	11.14
Mortgage Rate	%	12.97	14.49	12.65	10.91
Currency plus Demand Deposits	bil. $	375.3	408.5	442.2	534.7
Commercial and Industrial Loans	bil. $	310.8	325.6	367.4	430.7

The following assumptions are part of this forecast. Compared with assumptions incorporated into the November, 1980 issue, the changes concern the Assumption No. 3, and updates of Assumptions No. 4, and No. 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in 1981 and 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The tax cut of $22 billion for the year 1981, and the budget cut of $15 billion will be adopted.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

1.1 REAL GROWTH
(Tables 1.10, 1.11, and 1.12 on pages 8, 11, and 16)

The forecast by KEDI for industries during 1981 is a mixed one for the first part of the year, as was highlighted in the previous section. In the second part of the year, general growth in most industries is anticipated. Table 1.10 on page 8 shows the performance of industries in 1981, as measured by the Index of Industrial Production (IIP).

Mining. There will be a continuation of good performance here. Output of bituminous coal will gain slightly less than it had in the previous year. A substantial increase is expected in iron ore, and small increases in nonferrous ores mining.

Food Industry. As measured by the IIP, the gain here will be 2.0 per cent. Significant gains in grain mill products are expected whereas meat products will be flat, and dairy products will increase slightly.

Textile and Apparel. Here, the pattern will be mostly a flat, straight line with some upward trend during the second half of the year. The IIP yields a .4 per cent gain in 1981 as compared to 1980.

Furniture and Fixtures. No real gains are expected here before April or May of 1981. The IIP reflects a flat performance for 1981.

Paper and Products. The forecast points to recuperation from the downturn of 1980. A gain of 4.0 per cent is calculated for 1981 over the prior year. Main

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1484.3	1486.7	1496.7	1510.4	1528.6	1505.6
Index of Industrial Production	1967=100	147.9	149.1	150.4	152.3	154.4	151.6
Unemployment Rate	%	7.7	7.7	7.5	7.2	7.0	7.4
Capacity Utilization Rate	%	77.4	77.1	79.6	83.4	84.9	81.3
Private Housing Starts	mil. units	1.499	1.315	1.455	1.560	1.605	1.483
Car Sales	mil. units	8.5	8.5	8.9	9.8	10.2	9.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1505.6	1531.4	1544.6	1564.0	1580.7	1555.2
Index of Industrial Production	1967=100	151.6	156.8	159.4	163.1	165.8	161.3
Unemployment Rate	%	7.4	6.8	6.6	6.5	6.2	6.5
Capacity Utilization Rate	%	81.3	85.1	85.8	86.4	86.9	86.1
Private Housing Starts	mil. units	1.483	1.579	1.777	1.823	1.900	1.770
Car Sales	mil. units	9.4	10.1	10.6	10.8	11.0	10.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1555.2	1586.2	1608.4	1626.7	1638.6	1615.5
Index of Industrial Production	1967=100	161.3	167.3	170.2	173.8	175.9	171.8
Unemployment Rate	%	6.5	6.26	6.19	6.11	6.12	6.2
Capacity Utilization Rate	%	86.1	87.6	87.9	88.1	88.2	88.0
Private Housing Starts	mil. units	1.770	1.510	1.850	1.977	1.738	1.769
Car Sales	mil. units	10.6	10.2	10.6	10.9	11.0	10.7

increases are expected in paperboard containers.

Printing and Publishing. Growth is seen here, mainly in job printing, periodicals, books and cards.

Rubber and Plastics. Tires, innertubes and rubber products output will be at low levels in the first quarter, however, constant increments of growth are projected for the rest of the year. The forecast shows a 1.8 per cent increase in 1981 over 1980. For plastics, the gain expected is much more substantial: 6 per cent.

Chemicals and Products. Strong performance will be seen here in 1981, especially in basic chemicals, agricultural chemicals and synthetic materials. As measured by the IIP, the overall gain will be 7 per cent.

Ordnance and Accessories. Strong and steady growth throughout the year will occur. The gain in the IIP will be 10 per cent from the average of 78.0 in 1980 to the average of 85.9 in 1981.

Lumber and Products. Here, production will remain depressed, especially in the first quarter, due to the very low housing starts. The output will increase significantly in the second half of the year.

Clay, Glass and Stone Products. For the most of the year, the output in 1981 will be below the 1980 level. Again, slight improvement in the second half of the year will offset the dim and rocky aspects of the first part of 1981.

Primary Metals. Good news here. Vigorous growth is expected throughout the year. Considering the economy in general, perhaps one can think in terms of a medal for primary metals. Production of raw steel will gain from the expected level of 90.0 in 1980 to 110.0 in 1981, close to the 115.0 IIP level in 1979. The "winners" will be special steel products, pipes and tubes, and sheet and strip.

Nonelectrical Machinery. The expected December drop in orders is considered to be temporary. Demand will pick up early in 1981 and remain fairly strong. The gain in the IIP is expected to be 2 per cent over the prior year. Strength will be seen especially in farm equipment and metalworking machinery.

Electrical Machinery. Again, the news is pretty good. Strength is predicted for the following areas in particular: communication equipment, major electrical equipment and parts, and electronic components. As to household appliances, the gain will be moderate when compared to 1980. The IIP increase will be 3.1 per cent for electrical machinery.

Transportation Equipment. Everybody knows the American auto industry has been ailing--some of it from self-inflicted wounds. The forecast is not overly bright. Domestic production of motor vehicles and parts will show only a small gain over 1980 until the second half of 1981. Railroad equipment will remain at a low level with some small signs of gain in the autumn of 1981. However there is one bright spot in the sky: aircrafts and parts are expected to perform well throughout the year.

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TABLE 1.11 INDEX OF INDUSTRIAL PRODUCTION
AND COMPONENTS
(1967=100 SAAR)

INDUSTRY	1980 4	1981 1	1981 2	1981 3	1981 4	1980 Average	1981 Average
Mining	133.9	133.9	134.7	135.2	136.4	132.6	135.1
Utilities	171.6	172.4	173.6	174.7	175.6	170.2	174.1
Foods	150.3	150.2	151.4	153.1	153.9	149.2	152.2
Textile	134.3	134.0	137.6	138.2	139.4	136.8	137.3
Paper and Products	153.9	154.7	156.2	158.3	159.6	150.7	157.2
Printing and Publishing	142.3	142.1	143.7	144.6	145.9	139.3	144.1
Chemicals	213.4	214.5	219.8	224.3	226.7	206.9	221.3
Rubber and Plastics	263.4	264.8	265.7	268.4	271.1	256.8	267.5
Ordnance	80.2	82.9	84.4	86.7	89.5	78.0	85.9
Lumber	121.1	120.5	121.0	122.4	124.7	118.9	122.5
Furniture	147.5	147.0	148.8	150.2	151.0	149.6	149.3
Clay, Glass and Stone	144.4	143.9	142.7	143.8	145.6	146.0	144.0
Primary Metals	106.6	111.4	113.8	115.2	118.7	101.0	114.8
Fabricated Metal Products	134.5	137.2	138.4	140.1	146.9	134.9	140.7
Nonelectrical Machinery	161.9	162.7	163.0	165.2	167.8	162.2	164.7
Electrical Machinery	171.7	175.4	176.2	178.9	180.5	172.5	177.8
Transportation Equipment	119.8	117.5	115.4	117.6	118.4	116.5	117.2

REAL GROWTH

As was indicated in the Overview section, KEDI anticipates growth of real GNP to be 1.7 per cent in 1981 as compared to 1980. (See Table 1.10 on page 8.) The first quarter will be a mixture of ups and some downs. After that more balanced growth will take place in part due to interest rates moving downward.

Business confidence will remain strong in 1981. The Commerce Department survey on capital spending plans showed that inflation adjusted spending will go up by 2.5 per cent in the first half of 1981 over the last half of 1980. That is in line with KEDI's projection of 2.9 per cent increase in real business capital outlays in 1981 over 1980. The Administration's attitude has helped to boost business confidence a bit.

Preliminary numbers for December, 1980, show some declines in production took place. This was mainly due to the high interest rates and tight Federal Reserve policy. That downward movement is considered here to be temporary. The assumption is maintained that interest rates will decline early this year and keep moving downward throughout 1981. Also, the Federal Reserve will relax its monetary policies.

The renewal of consumer confidence is expected to take place later in 1981, after the anticipated drop in interest rates affect the consumers' loans and mortgages.

In 1981, the foreign trade will be a stabilizing factor for the economy. Substantial increases in grain exports will help to improve the U.S. balance of trade and balance of payments, and to offset the fuel imports. The projection

shows the export surpluses for all quarters of the year and the stable position of the dollar in international markets.

KEDI anticipates positive impact of the new Administration's policy on developments in the economy in 1981 and following years. The long-term projection shows that in 1981 not too much can be done - except to prevent the things from getting worse before they will start getting better. In the projection of this Institute, the stabilizing and growth effects of the Administration's combined tax and budget cutting policies, and removals of unnecessary regulations will start affecting the economy no earlier than 1982 and following years.

The KEDI forecast of an unbalanced development in the economy at the beginning of 1981 is documented by the mixed bag of good and bad news.

In November, orders for durables gained by 0.9 per cent, seasonally adjusted. That was the third month of gains, but it was lower than the previous increases. The slowing is attributable to the consequences of the high interest rates. Much of the November gain was due to new orders in the aircraft industry.

New orders for nondefense capital goods went up by 5.4 per cent in November from the prior month. That is an indication of future spending and strength.

In November, the trade gap shrank as oil import volume went down to the lowest level in over four years. The trade deficit was an adjusted $1.66 billion in November. The deficit for the first 11 months of the year was $29.48 billion. Looking on the bright side, that was $3.74 billion lower than the comparable 1979 deficit. On a balance-of-payments basis, there was only a modest deficit

REAL GROWTH

in 1979, and officials report there could be a surplus this year. That would be the first since 1976.

Leading economic indicators rose by 1.2 per cent in November. That was the sixth month of increases.

Retail sales went up a seasonally adjusted 1.6 per cent in November. That again, was the sixth month of gains, but it was mild. It is no surprise that gasoline service stations topped the list. Still, the steepness of interest rates will show some downward push on such sales in December and early 1981.

New factory orders increased again in November by 1 per cent, seasonally adjusted. KEDI anticipates that in December and in the first month or so of 1981, factory orders and output will show some decline, but they should move ahead again by spring given somewhat lowered interest rates which are forecast here.

According to preliminary data, construction spending also went up a bit in November. The month-to-month increase was 2.5 per cent. Private spending gained while public spending fell. Still, it must be remembered that such spending was generally down significantly when the pattern for 1980 is compared to 1979.

The mild good news just covered comes to an end as the reporting of the negative data commence.

REAL GROWTH

Automobiles come to the finish line first. Sales of cars in the first part of December were down by 7.5 per cent from the year-earlier total. On an adjusted basis, sales were about 6.7 million units at an annual rate. The reader is referred to Table 1.10 for forecast data on car sales on page 8.

In late December, it was reported that during 1980, there were 6.3 million autos built by U.S. factories. That was a decline of 25 per cent from the level of 1979 and the lowest total since 1961.

The survey of consumer confidence by the Conference Board in December showed a drop in its index after six months of gains prior to that time. Also, the index of buying plans showed a decline in plans to buy cars and major appliances.

Retail sales in November did not show much strength at all. The 1.6 per cent adjusted gain was lower than what was expected. High interest rates, the late Thanksgiving date, and inflation were all mentioned by retailers as being responsible for the slight growth on a yearly comparison basis.

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TABLE 1.12 GROSS NATIONAL PRODUCT
AND COMPONENTS
(bil. 1972 $, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	1484.3	1486.7	1496.7	1510.4	1528.6	1515.6
Personal Consumption Expenditures	937.7	939.7	945.5	948.6	959.4	948.2
-Durables	132.8	130.9	132.1	134.0	136.8	133.4
-Nondurables	359.0	361.6	363.8	364.4	369.2	364.7
-Services	445.9	447.2	449.6	450.2	453.4	450.1
Gross Private Domestic Investment	199.6	198.7	202.8	213.6	218.6	208.4
Nonresidential	157.2	156.1	158.4	164.8	167.5	161.7
Residential	40.1	39.8	41.0	44.6	46.2	42.9
Change in business Inventories	2.3	2.8	3.4	4.2	4.9	3.8
Net Exports	58.9	59.2	58.8	57.2	59.0	58.5
Exports	162.0	163.0	164.1	165.4	168.3	165.2
Imports	103.6	103.8	105.3	108.2	109.3	106.7
Federal Government Expenditures on Goods and Services	106.2	106.4	106.9	107.1	107.0	106.9
State and Local Expenditures on Goods and Services	181.0	182.6	183.1	183.9	184.6	183.6

1.2 PRICES

(Tables 1.20, 1.21, and 1.22 on pages 21, 22, and 23)

The forecast remains basically unchanged. The slight changes have been caused by routine revisions due to the recently released price data for November, 1980, and preliminary data for December.

The long-term outlook as measured by year-to-year percentage changes in the Consumer Price Index follows:

1980: +13.5

1981: +12.4

1982: +10.8

1983: +10.9

1984: +11.1

1985: +11.0

There are no dramatic declines in that list. KEDI has always predicted high inflation rates and often higher than many forecasters have been willing to predict. This Institute has been quite accurate over the years in this area. It is only recently that some forecasters are starting to include long-term, double-digit inflation in their outlooks.

A poll reported in The Wall Street Journal on December 24 of business leaders showed the majority thought inflation would be 10 per cent or less in a year and under 8 per cent in three years. As can be seen here, such executives are way too inclined to the "optimistic" view.

The new Administration cannot make miracles. The main obstacles to efforts to slow down inflation are built deep in the economy. They are structural and cannot be removed in a short time without bringing down the whole house so-to-speak.

Some of these structural features are: high wage rates in labor contracts, and the norm of high white collar and managerial wage gains in recent years, low productivity of labor, ever increasing costs of energy, and the growth in spending by the Federal Government. These are realities. The Administration cannot do anything about them in the short-run.

For one example, to document the KEDI view, the trend of consumer prices in November makes the point. Prices in that month went up by 1 per cent or a simple annual rate of 12 per cent which is the same as the rate in the prior two months. The November gain reflected the climbing mortgage interest rates, higher food prices, and a sharp jump in used car prices and gasoline prices. None of these are going to decline. The KEDI outlook for consumer prices for selected items in 1981 as compared to 1980 is:

Meat	+15 to 20%
Housing	+11%
Fuel oil	+18%
Gasoline	+25%
Medical care	+14%

During 1981, there will be some slowdown in the gains in prices in the first months of the year. It would be wishful thinking to hope that will be the start of a new trend to lower inflation. The upward trend will resume again.

In the Consumer Price Index, energy items will play a very major role as they have in recent years. The price of gasoline is expected to increase from the present range of $1.20 - $1.25 for a gallon upwards toward $1.60 or even $1.80 as was stated in the last issue. Such a view is confirmed by a congressional analysis which predicts increases of up to 45 cents by this summer due to the added pressure brought on oil by the Iran-Iraq conflict.

The KEDI forecast for gasoline prices assumes the OPEC price varies little in its level per barrel this year, and domestic price deregulations proceed. In mid-December, it was announced that OPEC hiked the price ceiling on a barrel to $41. That, by itself is likely to add three to five cents to the price of a gallon of gas at the pump. (Current barrel prices are about $2 or $3 below the OPEC ceiling.) The increase in the ceiling and its rippling effect down to our fuel tanks is expected to add about 0.5 per cent to the inflation rate according to speculation in the industry. The forecast here is not affected as for almost a year KEDI has incorporated such data into the model.

The rise in gasoline prices comes in the face of large stocks of it and declining comsumption. During the first 11 months of 1980 gasoline use was down by 7 per cent from the 1979 level and that was 18 per cent below 1978. Clearly, many Americans have been driving less.

Another area of large increases will be in meat prices. Some consumers may still have trouble adjusting to a sign that says "ground beef, sale price $1.29 per pound" while the more future-shock adjusted person sees it as a real bargain.

The Agriculture Department estimates that meat consumption on a per capita basis will decline by 3 per cent this year. Pork has been given most of the blame as supplies there will decline and prices will jump by 25 per cent or more in 1981. The Agriculture Department estimates that beef will gain by 16 per cent and the price of chicken will go up by 20 per cent. Those recently published estimates are again in line with forecasts that have been maintained here for quite some time. (It is likely that the sale of vegetarian cook books will rise.)

Producers' prices are expected to trail the consumer prices:

1981, +14.1% from the 1980 level;

1982, +10.3%

1983, +10.5%

1984, +12.3%

1985, +13.1%

The decline in December, 1980, in the prices of raw materials and some products is seen by this Institute as a temporary one. The projection here shows that prices will start to go up again in the second quarter of 1981 and continue to climb for the remainder of the year. The reader is referred to table 1.20 on page 21.

It is expected here that farmers' prices will be firm in 1981. The high demand from abroad will contribute to this.

KEDI expects that average gains for prices in 1981 from the level in 1980 will be as follows: corn, up by 15 per cent; winter wheat, by 10 per cent; spring wheat, by 12 per cent; and soybeans, by 16 per cent.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	256.1	263.0	273.6	281.7	288.9	276.8
Producer Price Index, NSA	1967=100	279.5	295.3	302.1	308.5	315.2	305.3
Implicit GNP Price Deflator	1972=100	182.9	186.7	190.4	194.2	197.7	192.3
Gross National Product	bil. $	2714.8	2775.7	2849.7	2933.2	3022.0	2895.2
Personal Consumption Expenditures	bil. $	1717.4	1761.3	1803.4	1841.9	1889.0	1823.9
Gross Private Dom. Investment	bil. $	406.1	411.8	431.2	466.3	487.4	449.2

Indicator	Unit	1982	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.8	297.0	302.1	310.2	317.7	306.8
Producer Price Index, NSA	1967=100	305.3	323.6	331.5	341.6	350.4	336.7
Implicit GNP Price Deflator	1972=100	192.3	201.1	204.7	208.9	212.7	206.9
Gross National Product	bil. $	2895.2	3079.6	3161.8	3267.2	3362.1	3217.7
Personal Consumption Expenditures	bil. $	1823.9	1950.4	1979.7	2051.4	2109.6	2027.8
Gross Private Dom. Investment	bil. $	449.2	509.6	539.8	556.7	579.1	531.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	306.8	325.4	338.4	345.1	351.6	340.1
Producer Price Index, NSA	1967=100	336.7	359.6	367.1	376.8	384.9	362.8
Implicit GNP Price Deflator	1972=100	206.9	217.6	222.9	228.7	234.9	226.0
Gross National Product	bil. $	3217.7	3451.6	3585.1	3720.3	3849.1	3651.5
Personal Consumption Expenditures	bil. $	2027.8	2144.5	2209.3	2273.8	2337.4	2241.3
Gross Private Dom. Investment	bil. $	531.3	627.4	648.7	681.4	681.4	668.2

* Historical Data

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TABLE 1.21 GROSS NATIONAL PRODUCT
AND COMPONENTS
(bil. $, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	2714.8	2775.7	2849.7	2933.2	3022.0	2895.2
Personal Consumption Expenditures	1717.4	1761.3	1803.4	1841.9	1889.0	1823.9
-Durables	212.7	215.1	220.7	229.0	239.5	226.0
-Nondurables	686.5	705.9	719.5	731.9	740.9	724.6
-Services	818.2	840.3	863.2	881.0	908.6	873.3
Gross Private Domestic Investment	406.1	411.8	431.2	466.3	487.4	449.2
Nonresidential	303.6	307.2	317.8	339.0	350.1	328.5
Residential	91.2	92.2	96.9	108.2	115.0	103.1
Change in business Inventories	11.3	12.4	16.5	19.1	22.3	17.6
Net Exports	49.9	49.9	52.9	50.0	59.9	53.2
Exports	348.1	354.9	363.2	370.7	386.4	368.8
Imports	301.8	305.0	310.3	320.7	326.5	315.6
Federal Government Expenditures on Goods and Services	193.4	195.4	197.6	199.3	202.1	198.6
State and Local Expenditures on Goods and Services	348.0	357.3	364.6	375.7	383.6	370.3

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TABLE 1.22 GROSS NATIONAL PRODUCT AND COMPONENTS-IMPLICIT PRICE DEFLATORS
(1972=100, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	182.9	186.7	190.4	194.2	197.7	192.3
Personal Consumption Expenditures	183.2	187.4	190.7	194.2	196.9	192.4
-Durables	160.2	164.3	167.1	170.9	172.6	168.8
-Nondurables	191.2	195.1	197.8	200.9	202.9	199.2
-Services	183.5	187.9	192.0	195.7	199.6	193.8
Gross Private Domestic Investment	203.4	207.2	212.6	218.3	223.0	215.4
Nonresidential	193.1	196.8	200.6	205.7	209.0	203.0
Residential	227.4	231.6	236.3	242.5	248.9	239.8
Change in business Inventories						
Net Exports						
Exports	215.1	217.7	221.3	224.1	239.6	223.2
Imports	291.2	293.8	294.7	296.4	298.7	295.9
Federal Government Expenditures on Goods and Services	182.1	183.6	184.8	186.1	188.9	185.9
State and Local Expenditures on Goods and Services	191.3	195.7	199.1	204.3	207.8	201.7

1.3 EMPLOYMENT AND LABOR
(Table 1.30 on page 25)

Some economists predict higher unemployment rates to prevail in 1981. KEDI does not share that view.

The prediction here is for some increases in the first quarter and then declines throughout the rest of the year. In the first quarter, the unemployment rate will change a bit from the present rate of 7.6 up to 7.7-7.8 per cent. After that, it will begin to edge downward and end the year at 7.4 per cent.

Declines in unemployment are expected in the following industries: construction, chemicals, steel, paper, rubber, lumber, clay and glass, and housing. The rate of unemployment will still remain at high levels by historical standards.

The forecast shows a better employment outlook for mining (especially coal), food, electrical and nonelectrical machinery, petroleum products, aircraft, aerospace, and ordnance.

The following industries will remain essentially the same. No substantial declines or gains in the numbers of employed are expected in fabricated metal products, aluminum and copper, paper and board, leather and products, and printing and publishing.

Employment in the automobile industry is not expected to show any gains before the third quarter of 1981.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Population	mil.	224.1	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	106.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.9	98.4	98.9	100.0	100.9	99.6
- Agriculture	mil.	94.6	95.1	95.6	96.6	97.6	96.3
- Non Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
Unemployment Rate	%	7.66	7.69	7.53	7.21	6.99	7.36

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.6	101.7	102.6	103.5	104.6	103.1
- Agriculture	mil.	3.3	3.4	3.4	3.4	3.3	3.3
- Non Agriculture	mil.						
Unemployment Rate	%	7.36	6.80	6.62	6.48	6.23	6.53

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.7	232.3	233.8	235.1	236.5	234.4
Civilian Labor Force	mil.	110.3	112.4	113.6	114.6	115.5	114.0
Employed	mil.	103.1	105.4	106.6	107.6	108.4	107.7
- Agriculture	mil.	99.8	102.1	103.2	104.2	105.0	103.6
- Non Agriculture	mil.	3.3	3.3	3.4	3.4	3.4	3.4
Unemployment Rate	%	6.53	6.26	6.19	6.11	6.12	6.17

* Historical Data

Over the long-term, the unemployment rate is not expected to drop below 7 per cent until 1982. The yearly average of the per cent of the civilian labor force out of work is calculated here to be as follows:

1980	7.22
1981	7.36
1982	6.53
1983	6.17
1984	6.04
1985	6.15

The forecast for the average workweek in 1981 is 35.5 hours. By quarters, it shows a slight downward move at first and then a slight upward movement for the remaining quarters. Quarterly averages are: 1st, 34.8 hours; 2nd, 35.3; 3rd and 4th, 35.6.

1.4 HOUSING
(Table 1.40 on page 28)

The prediction by this Institute of housing starts in 1981 shows that they will gain by approximately 8 per cent from the expected 1980 performance. Housing starts in 1981 are projected to total 1.483 million units, assuming mortgage rates decline. A substantial drop is anticipated in both December of 1980 and January of 1981. Single-family housing starts will not improve much before the third quarter of 1981 while the multifamily units will show steady growth from the second quarter.

Calculations show that if the 15 per cent mortgage rate remains throughout the first half of 1981, then housing starts will drop below the 1 million level. That would be about 55 per cent below the 2 million starts level that existed in 1977 and 1978.

The KEDI forecast shows that a 15-16 per cent mortgage rate will prevail at the start of 1981. It will not begin to decline before March. A more bearable level of 12-13 per cent will not be reached any earlier than the middle of the year.

The forecast concerning housing permits presents a similar picture. KEDI anticipates that the number of permits issued will be roughly 10 per cent higher in 1981 than in 1980. That is, of course, with the assumption that mortgage rates drop from the present high levels.

The median sales price of a home this October was at $65,700. That was about 5.5 per cent above the year earlier figure. In Southern California, the average cost was $85,800. (In Anaheim, it reached $160,000.) The median price of a home in December of 1980 is calculated by KEDI at $65,100.

The projection here for the end of 1981 is $69,800. That is a bit of good news. That is, the average price of a new home will not follow the inflation rate in 1981. It is expected that the average price will gain by about 7 per cent while inflation is a projected 12.4 per cent.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.950	.853	.947	1.006	1.037	.960
Multifamily Housing Starts	mil.	.549	.462	.508	.554	.568	.523
Mobile Home Shipments	mil.	.195	.204	.236	.267	.261	.242
Housing Permits Issued	mil.	1.276	.983	1.054	1.236	1.105	1.094
Construction Costs-Commerc.	1972=100	205.7	205.2	210.3	215.8	221.7	213.3
Construction Costs-Resident.	1972=100	206.3	204.8	209.1	213.1	219.8	211.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.960	.936	1.059	1.087	1.216	1.075
Multifamily Housing Starts	mil.	.523	.643	.718	.736	.684	.695
Mobile Homes Shipments	mil.	.242	.238	.259	.278	.271	.262
Housing Permits Issued	mil.	1.094	1.002	1.210	1.347	1.196	1.187
Construction Costs-Commerc.	1972=100	213.3	226.3	231.5	237.3	243.5	234.7
Construction Costs-Resident.	1972=100	211.7	224.1	228.7	234.8	241.3	232.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	1.075	.924	1.126	1.158	1.043	1.063
Multifamily Housing Starts	mil.	.695	.586	.724	.819	.695	.706
Mobile Homes Shipments	mil.	.262	.253	.289	.314	.278	.284
Housing Permits Issued	mil.	1.187	1.189	1.367	1.423	1.186	1.291
Construction Costs-Commerc.	1972=100	234.7	249.1	256.5	262.8	267.3	258.9
Construction Costs-Resident.	1972=100	232.2	246.5	253.1	259.7	266.1	256.4

* Historical Data

Whereas, housing starts are not expected to pick up much before the third quarter, the slight rebound in the sales of houses is expected earlier than that. KEDI projects some significant increases in home sales starting in the second quarter of 1981.

The forecast of mobile home shipments does not have any particular good news for 1981. However, 1982 will show some positive growth.

1.5 GOVERNMENT BUDGETS

(Table 1.50 on page 30)

The projection of the Federal Budget includes the new Administration's proposal of a $22 billion tax cut in 1981 and about $15 billion wrestled out of expenditures. Calculations show the Federal deficit will be in the range of $50 billion for calendar 1981. The outlook for 1982 and 1983 show some decrease in the deficit. However, no balanced Federal budget is foreseen here between 1981 and 1985.

That view is more pessimistic (and more realistic) than the original intention of the new Administration. They publicized a goal of a balanced budget by fiscal 1983. That is about as likely as a return to the 3 per cent rate of inflation that was more the rule way back.

The projection of State and Local Governments budgets presents a different picture. Steady surpluses are shown for 1981 and following years.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	264.3	271.2	281.6	288.7	295.6	284.3
Corporate Profit Tax Accruals	bil. $	72.4	74.6	77.3	80.5	83.4	79.0
Surplus./Deficit	bil. $	-56.7	-60.4	-53.6	-49.3	-48.1	-52.9
State and Local Governments:							
Income Taxes	bil. $	41.2	42.0	42.9	44.3	45.0	43.6
Corporate Profit Tax Accruals	bil. $	14.1	14.9	15.8	16.8	17.5	16.3
Surplus./Deficit	bil. $	24.5	24.4	23.0	23.6	24.1	23.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	284.4	308.7	317.5	326.3	334.7	321.8
Corporate Profit Tax Accruals	bil. $	79.0	86.8	90.3	94.5	97.8	92.4
Surplus./Deficit	bil. $	-52.9	-45.1	-40.2	-38.7	-36.5	-40.1
State and Local Governments:							
Income Taxes	bil. $	43.6	46.2	47.3	48.7	49.9	48.0
Corporate Profit Tax Accruals	bil. $	16.3	18.4	20.0	21.5	22.7	20.7
Surplus./Deficit	bil. $	23.8	24.9	25.8	26.7	27.3	26.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	321.8	341.2	353.4	365.8	377.5	359.5
Corporate Profit Tax Accruals	bil. $	92.4	101.6	105.4	110.8	116.3	108.5
Surplus./Deficit	bil. $	-40.1	-30.4	-28.7	-26.5	-22.4	-27.0
State and Local Governments:							
Income Taxes	bil. $	48.0	49.7	51.3	53.4	55.6	52.5
Corporate Profit Tax Accruals	bil. $	20.7	23.6	24.8	25.1	26.4	25.0
Surplus./Deficit	bil. $	26.2	28.2	28.4	27.8	27.0	27.9

* Historical Data

1.6 INCOME
(Table 1.60 on page 32)

Misleading news flash: Personal Disposable income is projected to be 13.2 per cent higher in 1981 than in 1980. Objective news addition: When adjusted by the inflation rate expected and measured on a per capita basis, it shows a decline of approximately 0.4 per cent. The same is true for 1982. By KEDI calculations, there will be some positive developments in this area (the first in four years) in 1983. At that time, adjusted Personal Disposable Income will grow by 0.8 per cent. In 1984 that growth percentage will be 1.1 and in 1985 it will gain a bit more to a 1.3 per cent rate.

The forecast of corporate profits present a positive trend. In the third quarter of 1980, corporate after-tax profits increased to an adjusted rate of $159.1 billion and in the fourth quarter another small increase is expected as they reach a $163.2 billion annaul rate. Some slowing in the rate of increase is expected in the first quarter of 1981, but a more substantial resumption will occur in the following quarters. (As was mentioned, due to Commerce Department December revision of decades of economic data, all tables are changed here and are not comparable to prior issues.) See table 1.60 on page 32 for corporate profits.

In 1981, the average weekly nonagricultural earnings will grow from $302.50 in the fourth quarter of 1980 to $313.70 in December of 1981. Again, when adjusted for inflation, the erosion of purchasing power of earning is seen.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Personal Income	bil. $	2250.3	2298.4	2358.8	2408.9	2467.9	2383.5
Personal Dispos. Income	bil. $	1930.9	1934.3	1983.5	2025.6	2077.3	2005.2
Compensation of Employees	bil. $	1841.2	1894.5	1959.3	2003.1	2054.2	1977.8
Corp. Profits After Tax	bil. $	163.2	170.4	178.9	188.5	199.4	184.3
Personal Saving	bil. $	118.4	120.6	126.3	128.1	130.5	126.4
Average Weekly Earnings	$	302.5	310.7	312.4	314.1	317.4	313.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2383.5	2531.3	2605.2	2665.2	2738.8	2635.1
Personal Dispos. Income	bil. $	2005.2	2143.2	2196.5	2247.9	2307.8	2223.9
Compensation of Employees	bil. $	1977.8	2133.1	2207.4	2269.1	2342.5	2238.0
Corp. Profits After Tax	bil. $	184.3	206.7	214.5	223.8	234.7	219.9
Personal Saving	bil. $	126.4	132.4	134.5	130.1	128.4	131.4
Average Weekly Earnings	$	313.7	321.7	324.2	327.1	329.4	325.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2635.1	2800.4	2881.2	2959.0	3036.9	2919.4
Personal Dispos. Income	bil. $	2223.9	2347.9	2420.9	2493.6	2557.3	2454.9
Compensation of Employees	bil. $	2238.0	2411.3	2490.7	2571.0	2647.3	2530.1
Corp. Profits After Tax	bil. $	219.9	242.1	253.8	264.1	276.8	259.2
Personal Saving	bil. $	131.4	130.1	133.2	136.7	134.3	133.6
Average Weekly Earnings	$	325.6	332.0	336.1	341.8	347.1	339.2

* Historical Data

Income

The long-term projection of this Institute indicates that, on the average, nonfarm payrolls will keep pace with inflation no earlier than 1983. (It is still a belt-tightening era.)

1.7 MONEY AND CREDIT
(Table 1.70 on page 34)

The KEDI forecast of growth in currency and demand deposits, MI-A, in 1981 shows a gain of 7.5 per cent over the average for 1980. That is moderate growth indicating that the Federal Reserve policy will remain rather tight throughout the year.

It is expected here that the Federal Reserve will relax its monetary and credit policies somewhat in early 1981. However, this relaxation will not be as total as that which took place in the April-June period of 1980.

It is anticipated that such mild relaxation will help the economy to avoid another credit squeeze. Given recent conditions, such an easing will hardly mean easy availability of credit.

The forecast here concerning commercial and industrial loans for 1981 shows a slight decline at the beginning of the year, slow growth in the second quarter, and a more significant surge in the latter half of the year. On the average, a 5.5 per cent increase over the previous year is expected. Consumer credit is expected to keep gaining moderately in 1981 without any drastic ups and downs.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	385.6	394.5	402.6	415.7	421.2	408.5
Time Deposits, Adjusted, M2	bil. $	1620.1	1620.1	1632.4	1671.2	1698.7	1655.6
Consumer Instal. Credit	bil. $	310.7	318.5	325.1	330.1	340.8	340.8
Commerc. and Industr. Loans at Banks	bil. $	312.6	314.3	317.2	322.3	325.6	325.6
Negotiable Cert. of Deposits	bil. $	130.6	135.2	139.1	143.3	146.2	146.2
Mortgages at S & L Assns.	bil. $	496.5	499.3	504.3	512.7	519.6	519.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	408.5	427.4	436.7	448.6	456.1	442.2
Time Deposits, Adjusted, M2	bil. $	1655.5	1735.3	1754.6	1797.3	1845.7	1783.2
Consumer Instal. Credit	bil. $	340.8	345.2	350.3	357.7	367.4	367.4
Commerc. and Industr. Loans at Banks	bil. $	325.6	330.7	338.1	346.2	354.7	354.7
Negotiable Cert. of Deposits	bil. $	146.2	149.1	153.5	157.1	160.4	160.4
Mortgages at S & L Assns.	bil. $	519.6	522.4	527.3	534.3	538.7	538.7

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	442.2	462.5	470.3	475.3	479.7	472.0
Time Deposits, Adjusted, M2	bil. $	1783.2	1890.3	1936.2	1956.7	1964.8	1937.0
Consumer Instal. Credit	bil. $	367.4	386.5	391.9	395.4	400.7	400.7
Commerc. and Industr. Loans at Banks	bil. $	354.7	360.1	366.2	370.1	374.3	374.3
Negotiable Cert. of Deposits	bil. $	160.4	165.6	169.8	172.3	174.4	174.4
Mortgages at S & L Assns.	bil. $	538.7	541.2	546.5	551.9	557.3	557.3

* Historical Data

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 1.80 on page 37)

The KEDI prediction of the developments in interest rates remains basically unchanged. It is felt here that interest rates have already peaked and will begin to decline early in 1981. This opinion is now widely shared by economists. Still, forecasters are widely split on the timing and the size of the declines in interest rates.

For instance, a Wall Street Journal sample of forecasts of the prime rate in 1981 showed the perceived high ranging from 20 to 30 per cent and the average for 1981 ranging from a low of 11½ to a high of 20 per cent.

A Gallup poll of the prime rate forecast of executives for the end of 1981 showed that 36 per cent of those with large firms clustered around the 10 to 11 per cent range as being likely. The second largest group (28 per cent of executives of large firms) viewed 12 and 13 per cent as the year-end prime rate. Just 10 per cent of those polled at big companies thought the rate would be 14 or 15 per cent.

A partner in Salomon Brothers, Henry Kaufman, predicted that interest rates would continue to rise and probably hit new highs in 1981.

A Bankers Trust Co. economist predicted declining interest rates as gaining speed fueled by a sharply falling economy in the first quarter of 1981. An economist at Fidelity Bank had another view: He predicted some fall in interest rates and then even higher rates early next year.

Interest Rates

KEDI predicts that in the middle of the year the prime rate will be 15-16 per cent. The Federal Funds rate will be 13-14 per cent, and the three-month Treasury bills rate will be 11-12 per cent. No further significant declines are expected for the rest of 1981.

At the present time, the U.S. interest rates are far above the average rates overseas. There is no indication that other countries will follow the lead of this nation and increase their interest rates. The wide gap, 4-6 per cent, between the U.S. and foreign rates cannot last for long. KEDI anticipates that the U.S. rates will keep moving downward until the world level is reached about the middle of the year.

Mortgage rates are expected to decline gradually starting in March and April of 1981. At the end of the year, the average mortgage rate on new homes is expected to drop down to a "more tolerable" 11.5 - 12.0 per cent.

The forecast of the stock market for 1981 shows no dramatic gains or declines. The stock market prices are expected to fluctuate mostly in the 880-960 range when measured by the Dow Jones Industrial average, or 115-130 as measured by Standard and Poor's 500.

In the long-term outlook going to 1985, no substantial declines in interest rates are foreseen. Calculations show no prime rates below 10 per cent and no mortgage rates below 9 per cent during that period.

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.25	12.72	11.40	11.27	10.06	11.36
Prime Rate	%	16.74	17.65	16.54	14.36	14.15	15.68
Mortgage Rate, New Homes	%	15.26	16.21	15.79	13.25	12.71	14.49
Aaa Bonds Rate	%	12.78	13.04	12.47	11.89	11.63	12.26
Long Term Govt. Bonds Yield	%	12.23	12.98	12.25	11.61	11.16	12.00
Standard & Poor's 500 Average	1941-43 =100	134.59	131.26	131.14	133.27	130.15	131.46

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.36	10.14	10.02	9.95	9.87	9.95
Prime Rate	%	15.68	13.08	12.74	12.56	12.23	12.65
Mortgage Rate, New Homes	%	14.49	12.54	11.96	11.63	11.42	11.89
Aaa Bonds Rate	%	12.26	11.21	10.98	10.54	10.49	10.81
Long Term Govt. Bonds Yield	%	12.00	11.09	10.80	10.73	10.34	10.74
Standard & Poor's 500 Average	1941-43 =100						

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	9.95	10.16	10.21	11.43	12.89	11.17
Prime Rate	%	12.65	12.43	12.61	13.18	15.48	13.43
Mortgage Rate, New Homes	%	11.89	11.28	11.52	11.84	12.03	11.67
Aaa Bonds Rate	%	10.81	10.57	10.86	11.15	11.57	11.04
Long Term Govt. Bonds Yield	%	10.74	10.21	10.45	11.08	11.43	10.79
Standard & Poor's 500 Average	1941-43 =100	132.30	135.20	135.36	132.16	130.48	133.55

* Historical Data

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KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

January 31, 1981

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW 1

KEDI's outlook remains optimistic. There is little change in the forecast for the years through 1984 that was presented in the last issue. Some revision for 1981 has been made with a slight reduction for growth expected in the second half of 1981. Less growth, more inflation, and a bit more unemployment are anticipated by KEDI for 1984 than has been forecasted by the Administration.

Evaluation of various plans show that the plan of the Reagan Administration is the most realistic alternative.

1.02 ASSUMPTIONS 6

Compared with the last forecast, no essential changes in Assumptions took place.

1.1 DETAILED FORECASTS

1.10 REAL GROWTH 7

The first quarter is seen as weak overall but with fairly strong growth in chemicals, plastics, ordnance and accessories, machinery, and mining. The second quarter will show a bit more growth. The latter half of the year will experience a mild and more balanced growth, but overall, real GNP will only gain 1.6 per cent in 1981 over 1980.

There are some gains in business spending plans, and durable goods orders have been holding, which are both good signs.

1.20 PRICES 12

The estimate of the inflation rate as measured by the CPI is maintained here: 12.4 per cent increase in 1981. Price gains for chemicals, machinery, energy and food will be at the top of the list. (If you need to eat less to take off a few pounds, an added incentive might be the rising food prices--especially beef.)

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	The forecast data for housing starts has been revised downward but only by a small amount. Starts are expected to total 1.3 million in 1981. The average price of a home is calculated here as rising by 7 per cent this year and roughly 8 per cent in 1982.	
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	Given the assumptions that are outlined here, the deficit will be a bit larger than the $50 billion range calculated for the last issue of the KEDI survey. It now is likely that the red ink will total $55-60 billion in 1981 but will move downward to the $35 billion range in 1982.	
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In this issue, forecasts of the Implicit Price Deflator for the Gross National Product have been selected for comparison.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The forecast presented in the last issue for 1981 through 1984 remains basically unchanged.

1981. The economy will grow at a slow rate in the 1.6 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.4 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3.4 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 11 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.8 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 11 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

1985. The economic activity will resume the upwards trend. The inflation will persist in the 10 per cent range. The unemployment rate will drop below 6 per cent. The interest rates will increase slightly. The KEDI forecast is highlighted in Table 1.0 on the following page.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: January 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1983
Gross National Product	bil. const. 72 $	1481.8	1506.5	1558.8	1714.2
Index of Industrial Production	1967 =100	147.0	151.9	161.5	185.8
Capacity Utilization	%	78.7	78.6	85.5	87.8
Unemployment Rate	%	7.2	7.5	7.2	6.5
Private Housing Starts	mil. units	1.317	1.370	1.557	1.894
Car Sales	mil. units	8.7	8.9	9.4	11.9
Implicit GNP Price Deflator	1972 =100	177.4	195.1	211.4	252.6
Consumer Price Index	1967 =100	246.7	277.1	308.4	432.8
Producer Price Index	1967 =100	269.8	306.6	343.1	472.6
Federal Deficit	bil. $	-64.1	-57.1	-36.6	-24.7
Personal Income	bil. $	2161.0	2436.4	2723.3	2827.1
Prime Rate	%	15.1	16.7	14.7	11.2
Mortgage Rate	%	13.0	13.8	12.9	10.8
Currency plus Demand Deposits	bil. $	377.4	394.9	421.8	528.6
Commercial and Industrial Loans	bil. $	313.6	335.4	354.2	432.7

To a large extent, KEDI agrees with views expressed by Walter E. Hoadley, chief economist for the Bank of America. He said, "Perhaps the best way to characterize the first quarter of 1981 is that after it is over, the only way for the economy to go will be up." He views 1981 as being a "somewhat better year" for the overall economy. (The Wall Street Journal, January 12, 1981)

Mr. Hoadley went on to indicate that inflation has become chronic in this country and that there is little chance for the overall rate to slow this year. That is a view that KEDI has been expressing for quite some time. It is only recently that other economists have begun to express that view. The forecast here for double digit inflation for the next five years is unchanged.

Starting in November of last year, this Institute has maintained the assumption of tax cuts amounting to 30 per cent spread over three years and an acceleration in depreciation allowances of approximately 40 per cent.

Looking ahead to 1984 and comparing the outlook calculated here with that of the Carter and the Reagan Administration shows that KEDI expects inflation to be higher, growth to be lower, and unemployment to be a bit higher than either of them.

Three Projections of 1984:

	Rate of Growth over 1983	Unemployment rate	Inflation rate
Reagan Administration	4-5%	below 6%	5%
Carter Administration	3.7%	5.5%	7%
KEDI	3.4%	6.0%	11%

In commenting on President Reagan's economic projections and proposals, Walter Heller spoke of the combination of large tax cuts and tighter money as being contributors to higher interest rates and inflation and detractors from economic growth.

Otto Eckstein of Data Resources Inc. viewed the Reagan package as one that was a gamble with the economy as the bet. Lower government revenues may or may not be offset by growth the tax cuts would aid.

Michael Evans of Evans Economics Inc. expressed the view that an 8 per cent inflation rate is possible by 1984. A lower rate than that was not forecasted by Evans.

Alan Greenspan of Townsend-Greenspan & Co., and one of the designers of the Reagan plan, testified before the Senate Appropriations Committee that the Administration feels both inflation and interest rates would be dramatically reduced if tax rates and government spending are cut.

This Institute does not agree with the possibility of any "dramatically reduced" inflation and interest rates. There are several reasons:

1. The roots of inflation are deeply entwined with the productivity of labor. It is not improving.
2. The prices paid for energy will continue to gain.
3. The U.S. economy is not some cut-off tropical island. (Although some of us might like to be on one.) It is an integral part of the world economy. Projections show that there will be inflation

averaging 10 per cent a year for each of the next 5 years on the planet we call earth. It is not possible for the this nation to have a 5 per cent inflation rate in this setting.

The degree of success of the Reagan plan is regarded here as depending on three main factors: First, the psychological factor as to whether or not he is able to persuade the public that his plan will work; secondly, ability to reduce the Federal deficit on roughly $15 billion in 1984; and thirdly, the expected tax cuts for business and the accelerated depreciation really sparking productivity starting in 1982.

Calculations at this Institute show that the total 30 per cent tax cuts in personal income tax will have NO DRAMATIC EFFECT. The cuts will prevent substantial gains in the burden of taxes we bear in coming years, but there is not any way that the cuts would mean a significantly lower taxation of income, given the inflation rate and increasing social security taxes. Comparison of the projection with the proposed tax cuts and accelerated depreciations for businesses, and the projection without these increases shows, that the Administration's proposals are very viable and may substantially contribute to improve the performance of the economy.

What is the evaluation then by KEDI of the Administration proposals? Given the situation, there is support here for them as they are indicated as the most realistic alternative. However, the expectations of the results of the proposals are too high. That is, enacting the proposals

will not result in cutting inflation and unemployment to the extent that the Administration indicates.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the December, 1980 issue, the changes concern the updates of Assumptions No. 1, 4, 6, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in 1981 and 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization

policy. The tax cut of $20 billion for the year 1981, and the budget cut of $15 billion will be adopted.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984
West Germany	1.2%	1.6%	2.3%	3.1%
Japan	1.5%	2.1%	3.0%	3.5%
Italy	1.3%	1.8%	2.5%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%
France	1.8%	2.4%	2.7%	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH

(Table 1.10 on page 11)

In real terms, the forecast for the year remains the same. During 1981, the economy will start with a generally weak performance. By the second part of the year, the growth that began in a few industries in the earlier part of the year will spread to most industries. The scenario on a quarterly basis follows.

First Quarter. There will be a weak showing and declines in many industries--particularly in autos, housing, construction, appliances, mobile homes, retail trade, furniture, textiles, apparel, paper and utilities. Slow growth is forecast here for rubber, steel, primary metals, electrical and nonelectrical machinery, food, and petroleum products industries, It is anticipated that there will be strong growth in chemicals, plastics, ordnance and accessories, mining, aircraft and aerospace.

Second Quarter. The projection here by KEDI shows substantial improvements in the producer's durables sectors of steel, nonelectrical machinery, and primary metals. Improvements in rubber, paper, and food industries are expected.

Third and Fourth Quarters. The forecast here shows more balanced growth during this part of the year than in the first half. Housing, construction, retail trade, and petroleum products will pick up. The automobile industry will begin to recuperate some. It is anticipated that strong performance will continue in electrical machinery, defense, aircraft and aerospace industries, mining, chemicals, plastics, primary metals, and that there will be further improvements in the steel industry.

Looking at the first quarter of 1981 and comparing it with the fourth quarter of 1980 shows that in general the performance will be slightly lower than had been expected here prior to this issue. Although KEDI

was closer to the mark than other forecasters in the projection of GNP for the fourth quarter of 1980, still the preliminary data coming out of Washington indicates there was a bit more strength than had been forecast here. Hence, by comparison, the first quarter of this year will appear to be lower.

There are other factors that have been adding some slight downward nudges on the estimates here for the first quarter. First of all, the weather has been more severe and for a longer period than is average for this season of the year.

There have been additional cuts in the production plans in the automobile industry. Officials announced that eleven plants would be closed at the end of January to help reduce inventories. That meant that just over 33,000 workers would be laid off for at least a week in this weak industry. Even, the Toyota plant that makes truck beds in California was to be closed for two weeks because of lackadaisical light truck sales. (Toyota blamed the closing--its first--on the jump in the U.S. tariff on imported cab-and chassis units.)

Another factor has been uncertainty over the plans of the new Administration and the degree of acceptance of the plans in the Congress and the banking community. Manufacturers will be witholding new orders to a large extent until it is more clear as to what the Administration plans to do and is able to get done. It is understandable that ordering some equipment now that could wait a few months when it might be subject to faster

depreciation or higher tax credits is distorting the data on new orders for the first months of this year.

Regarding consumer attitudes, it is not expected that they improve any earlier than in the second quarter. During the second part of this year, they will be more positive about their own economic future and that of this country. KEDI expects that the tax cut of 30 per cent in 1981 through 1983 will be enacted. The positive impact of that will begin to be seen in the latter part of this year.

The calculations of this Institute for the first part of 1981 have been supported by January developments. For one thing, retailers indicated in mid-January that they expect sales to be sluggish during the first half of the year. The second part of 1981 is viewed by retailing analysts as showing only moderate improvement. Inflation weary and wary citizens are seen as being fairly tight with their few coins and shrinking dollars. Also, the sluggish recovery likely in the housing industry is not viewed as much of a stimulus to the sales of household durables.

The most recent survey by the government of business spending plans indicate that there will be very slight gains in this area. Spending plans when adjusted for inflation are forecast to gain about 1 per cent over the 1980 level. In 1980, such spending was down 0.5 per cent from the prior year.

The increase in orders for durable goods in December--up 1.9 per cent over the November level on an adjusted basis--does add credence to the

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TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1481.8	1488.1	1496.8	1511.8	1529.2	1506.5
Index of Industrial Production	1967=100	147.0	149.4	151.0	152.5	154.5	151.9
Unemployment Rate	%	7.2	7.8	7.6	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	76.4	77.1	79.2	81.8	78.6
Private Housing Starts	mil. units	1.319	1.140	1.435	1.434	1.474	1.370
Car Sales	mil. units	8.7	8.5	8.9	8.9	9.4	8.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1506.5	1533.2	1546.9	1568.1	1586.9	1558.8
Index of Industrial Production	1967=100	151.9	156.9	159.7	163.4	165.9	161.5
Unemployment Rate	%	7.6	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	78.6	83.5	85.2	86.4	86.9	85.5
Private Housing Starts	mil. units	1.370	1.360	1.562	1.687	1.620	1.557
Car Sales	mil. units	8.9	9.0	9.3	9.6	9.5	9.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.8	1591.3	1611.9	1630.2	1640.1	1618.4
Index of Industrial Production	1967=100	161.5	167.5	170.3	173.9	176.1	172.0
Unemployment Rate	%	7.2	6.9	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	85.5	87.3	87.6	88.1	88.2	87.8
Private Housing Starts	mil. units	1.557	1.449	1.691	1.793	1.675	1.652
Car Sales	mil. units	9.4	9.4	9.8	9.6	10.3	9.8

* Historical Data

view that some growth is going on out there. Much of that month's increase was in the defense sector. The percentage is a preliminary one and is frequently revised quite a bit due to many companies delaying their reports because of the scramble of getting books in order at the end of the year. New orders for nondefense capital goods were calculated to have moved down by 0.2 per cent from the November level.

Support for the outlook that has been maintained by this Institute for some time is also seen in the comments of economists that more and more are voicing the view that the first half of the year will be weak, and any growth in the second part is tied to events in Washington.

1.20 PRICES
(Table 1.20 on page 15)

The estimate of the inflation rate for 1981 is maintained here as being 12.4 per cent. The main price increases will be in food, energy, machinery and chemicals. The reader is referred to table 1.20 on page 15 for actual CPI and other data.

KEDI anticipates that food prices will increase about 12 per cent during the year. That is in line with recent Department of Agriculture pronouncements that food costs will go up by about 1 per cent a month. The suggestion by the new chairman of the Joint Economic Committee, Rep. Henry Reuss, that because of the rapid rise expected in food prices, the President consider a freeze on wages and prices probably will not be viewed by the White House as desirable.

Indicative of the overall conditions in the economy is the gain expected in the price of meat. The number of cattle on feedlots at the end of December was down by 5 per cent from the year-earlier total as cattlemen attempted to deal with high interest rates and increasing corn prices. Current prices are below the break-even point for many cattlemen and some discouraged ones have been sending breeding stock to the market. This all adds up to even higher prices for the beef eater--and possible smaller portions at home.

The Agriculture Department projects that during 1981 the average retail price for beef will jump up by 14 per cent. Current plentiful supplies will soon be depleted.

As to energy prices, a recent historical perspective provides a depressing framework. Energy-product prices went up by 27.2 per cent in 1980 from the 1979 level. The increase in 1979 had been a whopping 62.7 per cent. The forecast by KEDI for the 1981 increase over the prior year is 30.4 per cent. (It is doubted that even the optimist would care to have that phrased in rosy terms such as "the price gain expected this year is less than half the rate of gain that took place between 1978 and 1979!!" That phrasing might even get "Little Mary Sunshine" booed off the stage.)

Oil prices for the first quarter coming out of OPEC have been settling at a weighted average of about $35 a barrel. That is up about $3 a

barrel from the level before the OPEC meeting in Bali (and it brings new meaning to the song from South Pacific called "Bali Ha'i.") The projection here is that the price will reach $40 a barrel by the end of the year.

The decontrol order for crude oil and gasoline is expected to add about $4 to the cost of a barrel of crude oil. This translates into a gain in the per gallon price of about 10 cents. That is the figure that KEDI has maintained and the one seen as most likely as being the result of the hikes on crude oil by the end of this year. It is not likely that oil companies will absorb the barrel price increases without passing them on to the consumer.

Calculations at KEDI show that steel prices will go up by approximately 9 per cent this year. The first signs of increases are already apparent in that a major steel producer announced that prices will go up an average of 7.5 per cent in March on certain steel plates, pilings, and structural shapes. It was last October when prices for these products went up an average of 4 per cent.

The forecast here for the prices gains of some other products during 1981 as compared to 1980 follows: Machinery: +12.9%; Chemicals: +13.6%; Lumber: +10.2%; Primary metals: +9.5%; Autos: +8.0%; Textiles: +7.4%; Paper and products: +7.2%; Rubber and products: +6.5%.

In general, producer prices in 1981 are expected to go up by 13.6 per cent. Such gains obviously exceed the expected rise in the CPI.

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TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	263.5	273.5	282.1	289.3	277.1
Producer Price Index, NSA	1967=100	269.8	290.3	302.5	311.3	322.4	306.6
Implicit GNP Price Deflator	1972=100	177.4	188.4	193.7	197.1	201.1	195.1
Gross National Product	bil. $	2628.8	2804.0	2899.6	2979.2	3075.8	2939.7
Personal Consumption Expenditures	bil. $	1671.1	1771.5	1891.4	1940.7	2001.3	1901.2
Gross Private Dom. Investment	bil. $	434.9	414.3	430.3	465.9	482.2	448.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	277.1	299.0	303.5	310.9	320.4	308.4
Producer Price Index, NSA	1967=100	306.6	330.1	339.8	347.6	354.9	343.1
Implicit GNP Price Deflator	1972=100	195.1	205.6	209.3	213.5	217.1	211.4
Gross National Product	bil. $	2939.7	3152.9	3238.3	3348.2	3445.5	3296.2
Personal Consumption Expenditures	bil. $	1901.2	2047.5	2104.6	2170.3	2243.8	2140.6
Gross Private Dom. Investment	bil. $	448.2	507.4	526.2	542.8	571.3	536.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	308.4	327.8	336.7	347.1	354.2	341.5
Producer Price Index, NSA	1967=100	343.1	363.6	373.2	381.2	390.4	377.1
Implicit GNP Price Deflator	1972=100	211.4	221.7	225.9	231.2	235.9	228.7
Gross National Product	bil. $	3296.2	3528.2	3640.8	3769.7	3868.5	3701.8
Personal Consumption Expenditures	bil. $	2140.6	2323.5	2406.4	2509.7	2572.4	2453.0
Gross Private Dom. Investment	bil. $	536.9	502.8	644.9	683.4	705.8	659.2

* Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 17)

When being compared with other forecasters, the KEDI calculations of the unemployment rate can be seen as being at a relatively "low" level. It is expected here that average unemployment in 1981 will be 7.6 per cent. Included here are the forecasts of this figure by five others in this field.

	Unemployment Rate forecast for 1981
Chase Econometric Assoc.	8.3
Data Resources	7.9
Wharton	8.0
Merrill Lynch	7.7
Michigan	7.9

The projection by this Institute of a relatively low rate of joblessness is based on the balancing effect that expected high employment for the following areas will have: mining, chemicals, primary metals, machinery, plastics, ordnance and accessories, aircrafts, and aerospace. Also, fairly good levels of employment are forecast by KEDI for rubber, paper, petroleum products, printing and publishing, and the food industry.

The KEDI projection of the average workweek for those employed in factories has been slightly increased. This change is the result of the small revision of the forecast data here for employment in durable goods industries.

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.025	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.3	98.8	99.7	100.4	99.3
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.126	95.0	95.5	96.3	97.1	96.0
Unemployment Rate	%	7.19	7.81	7.64	7.49	7.43	7.59

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.8
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.1	101.9	102.9	103.7	102.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.0	97.7	98.5	99.6	100.4	99.0
Unemployment Rate	%	7.59	7.35	7.26	7.07	7.10	7.19

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.8	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.4	104.9	106.1	106.6	107.5	106.3
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.6	102.7	103.3	104.1	102.9
Unemployment Rate	%	7.19	6.94	6.89	6.75	6.61	6.80

* Historical Data

Employment and Labor

It is expected that the average weekly number of hours worked by quarter for 1981 will show gradual gains. The average is calculated to be 40.0 hours in the first quarter, 40.3 in the second, 40.4 in the third, and up to 40.9 in the last quarter of the year.

1.40 HOUSING

(Table 1.40 on page 20)

KEDI agrees with the majority of forecasters in their view of the first half of the year as being sluggish with some recuperation in the latter part. It is anticipated that in 1982 there will be 13 per cent more housing starts than in the prior year and the gain in 1983 will be 8.8 per cent. More substantial increases are expected by this Institute in 1984 and in 1985.

Certain factors stand out as contributing to the rather low level of housing activity through 1983. First, interest rates on mortgages will remain high throughout this period. Although there will be some decline, this Institute expects that the rate for mortgages at the end of 1983 will still be in the area of 11 per cent.

Secondly, the level of Federal support for housing will be declining. In 1980, roughly 40 per cent of housing starts had some support from the Federal Budget. It is assumed that with the trimming that is going on in Washington, that involvement will be reduced to about 30 per cent of housing starts in 1981 and to about 20 per cent in both 1982 and 1983.

A third factor to consider is that the prices of houses will not increase as quickly as the CPI inflation rate. KEDI anticipates that the average price of a home will gain by 7 per cent in 1981 and by 8 per cent the following year. Given the interest rate situation that is expected, from the builders standpoint, this will soften the supply side of the market.

More normal conditions will occur in 1984 and 1985. The forecast for the former year is 1.7 million and for the latter, it is 1.9 million housing units starts.

This Institute does not agree with Mr. Sumichrast of the National Association of Home Builders in his estimate that at least two million new dwellings must be built every year during the current decade to meet the demand for new housing. It is calculated here that 1.7-1.8 million will cover the average yearly demand in this period. That is approximately the present existing capacity of home builders.

If more housing than that were built, capacity would be strained, inflationary pressures would be added, and shortages would take place. KEDI does not anticipate that being part of the pattern during the next five years.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.858	.743	.934	.914	.901	.873
Multifamily Housing Starts	mil.	.461	.397	.501	.520	.573	.497
Mobile Home Shipments	mil.	.187	.208	.209	.250	.273	.230
Housing Permits Issued	mil.	.896	1.074	.979	1.326	1.397	1.150
Construction Costs-Commerc.	1972=100	198.6	209.8	218.9	223.2	233.4	221.3
Construction Costs-Resident.	1972=100	198.8	211.7	218.2	222.7	233.7	221.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.883	.847	.973	1.073	1.014	.977
Multifamily Housing Starts	mil.	.500	.513	.589	.614	.606	.581
Mobile Homes Shipments	mil.	.230	.261	.311	.320	.325	.304
Housing Permits Issued	mil.	1.150	1.369	1.704	1.789	1.683	1.636
Construction Costs-Commerc.	1972=100	221.3	240.0	253.7	262.1	270.5	256.6
Construction Costs-Resident.	1972=100	221.6	239.5	253.0	260.2	268.7	255.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.977	.935	1.104	1.179	1.043	1.065
Multifamily Housing Starts	mil.	.581	.514	.587	.614	.632	.587
Mobile Homes Shipments	mil.	.304	.304	.341	.367	.394	.352
Housing Permits Issued	mil.	1.636	1.594	1.786	1.843	1.756	1.745
Construction Costs-Commerc.	1972=100	256.6	278.3	287.9	299.2	299.2	294.4
Construction Costs-Resident.	1972=100	255.4	276.5	285.4	297.0	310.4	292.3

* Historical Data

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 22)

The forecast data for government budgets are based on the assumptions of the following: 10 per cent federal income tax cuts in each of the years 1981 through 1983, the 40 per cent depreciation acceleration rate, $7 billion in business tax cuts in 1981 and $10 billion in 1982, roughly $15 billion in cuts in federal spending this fiscal year and $35 billion in fiscal 1982 (which begins on October 1, 1981).

The assumptions include the following estimates of the budget cuts. More details of the cuts will not be known until the Administration announces its plan on February 18. Assumptions here will be adjusted to incorporate any changes that may be revealed at that time.

Current Assumptions about Budget Cuts
in Each of Two Years, in billions of dollars

	1981	1982
Food Stamps	$1 billion	$1 billion
Elimination of Public Jobs	1 billion	4 billion
Synthetic Fuels Development	2 billion	4 billion
Medicaid, Urban Development, Highways, Social Security Benefits	8 billion	21 billion
Federal Grants in Aid	3 billion	5 billion
	$15 billion	$35 billion

Given the assumption just outlined, the estimate for the deficit for this year is in the $55-60 billion range. In 1982, that should decline to the $35 billion area. No balanced budget is foreseen by KEDI through the mid-1980's.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	256.4	277.8	286.5	291.4	297.3	288.4
Corporate Profit Tax Accruals	bil. $	69.7	75.9	81.4	87.3	95.6	85.1
Surplus./Deficit	bil. $	-64.1	-65.6	-59.7	-54.3	-48.7	-57.1
State and Local Governments:							
Income Taxes	bil. $	80.2	86.8	88.9	91.3	93.4	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.0	15.0	15.9	14.5
Surplus./Deficit	bil. $	27.0	28.4	27.5	25.6	24.1	26.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	288.4	308.9	317.6	328.1	338.4	323.3
Corporate Profit Tax Accruals	bil. $	85.1	101.4	108.3	115.6	123.7	112.3
Surplus./Deficit	bil. $	-57.1	-44.3	-37.2	-31.6	-33.4	-36.6
State and Local Governments:							
Income Taxes	bil. $	90.1	95.7	98.1	101.5	103.8	99.8
Corporate Profit Tax Accruals	bil. $	14.5	16.6	17.8	18.3	19.5	18.1
Surplus./Deficit	bil. $	26.4	23.9	22.7	22.4	23.1	22.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	323.2	349.5	360.1	373.4	385.2	139.1
Corporate Profit Tax Accruals	bil. $	112.3	130.4	136.7	142.5	149.3	139.7
Surplus./Deficit	bil. $	-36.6	-36.5	-39.4	-36.8	-32.5	-36.3
State and Local Governments:							
Income Taxes	bil. $	99.8	106.1	108.5	110.4	113.1	109.5
Corporate Profit Tax Accruals	bil. $	18.1	20.4	21.6	22.7	24.0	22.2
Surplus./Deficit	bil. $	22.8	23.8	24.2	25.3	25.6	24.7

* Historical Data

There are no basic changes in the forecast of state and local budgets as compared with the previous issue. The surpluses have been slightly reduced as smaller amounts of Federal grants-in-aid are projected than had been assumed last month. The drop in this area is projected to be larger than the offsetting impacts of increased accruals of state and local taxes.

1.60 INCOME
(Table 1.60 on page 25)

The annual 10 per cent tax cuts in each of the next three years have been incorporated in projections here since the November issue. The forecast shows that the general consequences of these cuts will be in personal savings rather than in spending on consumer goods.

First, the forecast data show that the major portion of the money represented by the reduced taxes will be offset by two things: the increases in social security taxes that will take bigger bites during the 1981 through 1983 period and the increases in the Federal Income tax payments that will occur because cost-of-living adjustments in wages and even partial "adjustments" push many into higher tax brackets.

As the reader knows, Social Security tax payments have had to be increased partly because there are fewer workers increasingly helping to support more and more retired people that are living longer. Just in the last decade the life expectancy for men has gone up by another year and for

Income

women, it has gone up by two years. As Louis Rukeyser pointed out in a recent column, the maximum tax per worker will reach $1,975 this year whereas it was $965 in 1977. The annual hikes currently planned will bring the maximum up to slightly more than $3,000 in 1987. To quote him, "In reality, Social Security is most workers' fastest-rising tax..." (Akron Beacon Journal, Jan. 12, 1981, page D4.) It can only be hoped that the workers paying that tax squelch some resentment by looking to their own retirement when other whippersnappers will be "supporting" them.

Calculations here show that the projected 10 per cent yearly tax cuts in the income tax will boost the personal savings by 1.8 per cent in 1981, and by 1.5 per cent in 1982, and 0.9 in 1983.

The forecast here concerning corporate profits has been somewhat reduced from the figures used in the December issue. The revision in the forecast of the production and sale of automobiles in the first half of 1981 was the main reason for the change.

The small impact of the tax cuts on the purchases of durable goods is forecasted to add 0.9 per cent to such transactions in 1981 over the prior year, 0.6 per cent in 1982, and 0.3 per cent in 1983.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2161.0	2285.6	2420.2	2491.4	2548.5	2436.4
Personal Dispos. Income	bil. $	1822.2	1921.0	2044.8	2098.7	2157.3	2055.5
Compensation of Employees	bil. $	1596.7	1713.1	1784.5	1845.7	1898.2	1810.4
Corp. Profits After Tax	bil. $	164.8	168.3	172.1	179.6	187.3	176.8
Personal Saving	bil. $	103.6	101.1	104.5	108.7	106.2	105.1
Average Weekly Earnings	$	297.1	311.4	312.4	314.8	318.5	314.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2436.4	2608.1	2678.3	2759.1	2842.5	2723.3
Personal Dispos. Income	bil. $	2055.5	2203.5	2262.2	2329.5	2405.3	2300.2
Compensation of Employees	bil. $	1810.4	1984.6	2025.1	2076.7	2167.1	2063.4
Corp. Profits After Tax	bil. $	176.8	190.5	196.7	201.5	206.8	198.9
Personal Saving	bil. $	105.1	105.4	106.7	107.3	108.9	107.1
Average Weekly Earnings	$	314.3	322.4	326.8	330.5	335.7	328.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2723.3	2933.7	3041.3	3160.8	3243.4	2094.8
Personal Dispos. Income	bil. $	2300.2	2488.1	2572.7	2677.0	2745.1	2620.7
Compensation of Employees	bil. $	2063.4	2280.8	2372.5	2486.1	2561.3	2425.2
Corp. Profits After Tax	bil. $	198.9	213.5	216.8	221.2	225.6	219.3
Personal Saving	bil. $	107.1	106.1	108.5	110.4	113.1	109.5
Average Weekly Earnings	$	328.9	337.2	340.5	343.6	346.2	341.9

* Historical Data

1.70 MONEY AND CREDIT
(Table 1.70 on page 27)

Since the last issue of the Survey, the data for 1981 have been lowered somewhat for the money supply, M1A, for the first half of this year. This is a result of the slight downward revision in the overall performance of the economy in the first quarter and the anticipation of a little less growth in the second part of the year than was calculated in December.

The forecast that was made last month for consumer credit has not been changed significantly. Steady growth in the 3 per cent range is expected for each year through 1985. No major fluctuations are seen. By comparison, consumer installment debt was up just 0.2 per cent between November of 1979 and November of 1980 (latest available). However, such debt had increased by 14 per cent in 1979 and by over 18 per cent in 1978.

KEDI expects that the upward trend in the commercial and industrial loan market will resume in the second quarter of this year. Early data for January indicated some cooling in the demand for loans. That will also be true in February and March. A more vigorous upturn is anticipated in 1982 and the following year as can be seen on Table 1.70 on page 27.

KEDI assumes that the Federal Reserve will loosen its tight policy ever-so-lightly in the second quarter of this year. A cooling in the demand for short-term credit is expected now by more and more bankers and economists. That will help lead the way to some lowering in interest rates. It is in line with the third assumption on page 6 which

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	384.5	389.7	396.7	408.7	394.9
Time Deposits, Adjusted, M2	bil. $	1596.2	1661.6	1673.5	1712.3	1735.1	1695.6
Consumer Instal. Credit	bil. $	310.5	314.3	317.6	322.4	327.8	327.8
Commerc. and Industr. Loans at Banks	bil. $	313.6	316.9	318.5	326.9	335.4	335.4
Negotiable Cert. of Deposits	bil. $	129.2	136.8	141.5	146.2	148.3	148.3
Mortgages at S & L Assns.	bil. $	486.5	496.5	501.0	508.7	517.6	517.6
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	394.9	414.1	418.7	424.5	429.7	421.8
Time Deposits, Adjusted, M2	bil. $	1695.6	1732.5	1769.8	1800.9	1835.3	1784.6
Consumer Instal. Credit	bil. $	327.8	334.6	338.5	346.8	354.2	354.2
Commerc. and Industr. Loans at Banks	bil. $	335.4	340.8	348.7	356.9	364.3	364.3
Negotiable Cert. of Deposits	bil. $	148.3	150.1	151.2	152.2	153.1	153.1
Mortgages at S & L Assns.	bil. $	517.6	521.2	525.7	531.4	536.8	536.8
Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	421.8	436.5	445.4	456.7	464.3	450.7
Time Deposits, Adjusted, M2	bil. $	1784.6	1862.7	1921.5	1967.8	1014.8	1941.7
Consumer Instal. Credit	bil. $	354.2	360.8	367.5	375.5	385.8	385.8
Commerc. and Industr. Loans at Banks	bil. $	364.3	369.7	376.3	381.2	385.8	385.8
Negotiable Cert. of Deposits	bil. $	153.1	155.2	158.7	162.3	166.4	166.4
Mortgages at S & L Assns.	bil. $	536.8	541.3	547.2	553.9	560.7	560.7

* Historical Data

Money and Credit

has been the same since September of last year.

1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 1.80 on page 31)

The data for interest rates reflect very minor changes when compared to figures in the last issue of this publication. The forecast that such rates will continue to decline throughout the 1981-83 period is maintained. Some resumption of the upward trend is projected for 1984 and 1985.

Still, the decline in these rates will be very slow. Influences that are significant are the government deficit, the demand for business loans, and the tight credit policy attitude entrenched in the Federal Reserve.

Taking the biggest first, forecast data show that the federal deficit will still be considerable in 1981--$55 billion. High government demand for funds will soak up a substantial portion of those that otherwise would be available to businesses and state and local governments. The large demand for funds by the nation's government will prevent any sharp decline in the interest rates.

Interest Rates, Yields and Securities Prices

Another factor contributing to the slow rate of decline in interest rates is that there will be an increase in the demand for business loans, expecially in the second half of this year. That gain in demand will not come from much expansion of business but will be due to inflation. Regardless of the level of sales, the companies will be paying more and more just to meet expenses--hence the need for loans. The demand for loans by business is expected to amount to roughly $130 billion. The level of business activity is expected to be nearly flat.

The increase in the GNP level in constant dollars will be 1.6 per cent. However, GNP in CURRENT dollars is projected to rise by close to 12 per cent. Loans are counted in CURRENT dollars. Therefore, they will keep increasing.

The third factor to consider is the ability of the Federal Reserve to relax their tight credit policy with any degree of enthusiasm. It is anticipated that their action will be very slow, uptight, and cautious. It will not be as dramatic as the loosening that took place in the May-June period of last year.

KEDI does not agree with the consensus of the forecasters listed in Blue Chip Economic Indicators. For example, the average for the interest rate on six-month commerical paper is viewed as declining to 11.9 per cent in the second quarter of this year in that survey. It will not decline that much by that time.

Interest Rates, Yields and Securities Prices

Mr. Yardeni, the chief economist for E.F. Hutton & Co., indicated that the prime rate will move smoothly downward and reach 13 per cent by spring. Stopping to listen and agreeing with that prediction is viewed here as being too optimistic.

The opinions expressed by Anthony M. Solomon, president of the Federal Reserve Bank of New York that the goal of curtailing the inflation rate requires moderation and a steady monetary policy is one that KEDI does share.

The forecast for various rates at the end of this year by KEDI are presented with the rates as they existed at the end of 1980.

	Dec. 1980	Dec. 1981
Prime rate	21%	15%
Commercial paper, 4-6 mo.	18%	14%
Conventional mortgage rate	15%	13%
3 month Treasury bills	16%	14%

A factor that is more hidden and volatile is the role of expectations. The extent and depth of inflation psychology for instance or the degree of positive expectations for the economy in general. In that regard there is always more latitude for error for predictions by anyone in this area. This will not be avoided here though by couching forecasts in broad terms such as saying rates will vary from 10 to 25 per cent.

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TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Three months averages)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.86	13.43	12.14	11.36	10.75	11.90
Prime Rate	%	15.10	18.36	17.06	16.34	15.21	16.74
Mortgage Rate, New Homes	%	12.96	14.27	14.01	13.75	13.16	13.80
Aaa Bonds Rate	%	11.89	12.36	12.07	11.64	10.97	11.04
Long Term Govt. Bonds Yield	%	10.96	11.47	11.14	10.89	10.64	11.04
Standard & Poor's 500 Average	1941-43 =10	114.70	118.21	121.65	125.19	127.38	123.11

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.90	11.04	10.36	10.12	10.35	10.47
Prime Rate	%	16.74	15.16	15.01	14.47	14.10	14.69
Mortgage Rate, New Homes	%	13.80	13.09	12.95	12.86	12.71	12.90
Aaa Bonds Rate	%	11.76	10.73	10.65	10.51	10.26	10.54
Long Term Govt. Bonds Yield	%	11.04	10.14	10.11	10.19	10.15	10.15
Standard & Poor's 500 Average	1941-43 =10	123.11	126.53	125.81	123.76	126.54	125.66

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.47	10.02	10.14	10.21	10.15	10.13
Prime Rate	%	14.69	13.86	13.54	13.26	13.24	13.48
Mortgage Rate, New Homes	%	12.90	12.32	12.46	12.73	12.86	12.59
Aaa Bonds Rate	%	10.54	10.12	10.26	10.47	10.67	10.38
Long Term Govt. Bonds Yield	%	10.15	10.08	10.19	10.31	10.48	10.27
Standard & Poor's 500 Average	1941-43 =10	125.66	127.14	128.65	129.95	128.31	128.51

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Implicit GNP Price Deflator has been selected for comparison. Actual figures for the first three quarters of 1980 have been taken from the December 23, 1980 release of COMMERCE NEWS (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.). The fourth quarter 1980 value is the January 1981 estimate of the U.S. Department of Commerce, communicated to KEDI January 22, 1981. The actual value of the Deflator, for 1980, as reported here, may have been slightly changed due to future revisions of the fourth quarter 1980 data by the U.S. Department of Commerce. Forecast data is from Business Forecasts 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

IMPLICIT GNP PRICE DEFLATOR
(Year 1980, 1972 = 100)

Actual: 177.4

Forecaster	Page in Business Forecasts 1980	Forecast	% of Accuracy
United California Bank	7	179.8	+1.3
Albert T. Sommers, Conference Board	7	180.04	+1.4
Cities Service Company	9	181.3	+2.1
Gulf Oil Corporation	11	180.42	+1.7
Metropolitan Life	11	179.3	+1.0
U.S. Trust Company	12	181.1	+2.0
Walter Fackler, University of Chicago	17	179.9	+1.4
Manufacturers Hanover Trust	20	177.2	-.01
Chemical Bank	21	180.0	+1.4
The First National Bank of Chicago	22	180.7	+1.8
American Statist Association and National Bureau of Economic Research	23	179.8	+1.3
Georgia State University	24	179.89	+1.4
Peter L. Bernstein, Inc.	25	180.7	+1.8
The JCIA National Business Forecast	26	179.3	+1.0
Cyrus J. Lawrence, Inc.	27	179.8	+1.3
Wharton Econometric Forecasting Associates	27	181.50	+2.3
Bankers Trust Company	28	181.50	+2.3
WGN Continental Broadcasting Co.	28	177.4	.0
Goldman Sachs	29	181.2	+2.1
The Fidelity Bank	30	182.1	+2.6
KEDI	31	179.7	+1.2
U.S. News and World Report	32	179.0	+ .9
Citibank	32	180.45	+1.7
Data Resources, Inc.	33	180.8	+1.9
Equitable Life Assurance Company	34	180.5	+1.7
Morgan Guaranty Trust Company	35	180.2	+1.5
Argus Research Corporation	36	178.6	+ .6

This comparison shows a tendency rather than values of errors, since the actual value of the Deflator is calculated from data in the December 23, 1980 benchmark revision of National Income and Product Data, conducted by the U.S. Department of Commerce. The forecast data refer to the pre-benchmark revision and are not strictly comparable.

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KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

February 28, 1981

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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1.01 OVERVIEW 1

The basic forecast remains the same here with slight revisions for GNP growth and an inflation rate adjustment. Comparing the forecast of the Administration with KEDI shows that generally the calculations here yield less optimistic results, especially concerning inflation. The accelerated depreciation allowances are a key that can lead to increased productivity.

1.02 ASSUMPTIONS 6

No significant changes in assumptions took place. With the present economic climate, we assume that President Reagan will get most of his program.

1.1 DETAILED FORECASTS

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Housing starts, retail sales and industrial production went up in January. Growth in the last quarter of 1980 and inventory reduction is viewed as contributing to a more stable first quarter. As compared to other forecasters, KEDI is not as pessimistic as most nor as optimistic as some. Real growth in GNP for 1981 is calculated at 1.7 per cent over 1980 by the Kent Forecasting System.

1.20 PRICES 12

The prediction for generally high rates of inflation is maintained. There has been a small revision in the rate for 1981: it has been changed from 12.4 to 12.2 per cent. That is still well ahead, sorry to say, of the figure the Administration is using. The January jump in producer's prices will lead to renewed monthly CPI gains.

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1.30 EMPLOYMENT AND LABOR 16

Unemployment remained at the 7.4 per cent level in January. That was a bit lower than what had been calculated here in the last issue. The first quarter rate has been revised here to an adjusted average of 7.6 per cent.

1.40 HOUSING 18

Housing starts went up in January by 3.4 per cent. It is expected here that housing starts will gain gradually this year and will total 1.58 million units as opposed to the 1.33 million figure for 1980.

1.50 GOVERNMENT BUDGETS 21

Assuming that the Administration's programs do go into effect, the Federal deficit will decline, but KEDI calculates it will amount to roughly $28 billion in 1984. The small surplus that Reagan assumes for that year will not be possible.

1.60 INCOME 24

Although most increases in personal disposable income in the early years of this decade will be offset by inflation, by the mid-years of the 80's some real gains will exist. Due to the tax cuts personal disposable income will increase at a faster rate than personal income.

1.70 MONEY AND CREDIT 26

It comes as no surprise that monetary policy will continue to be tight. However, it will not cause strangulation. It will ease very slowly and cautiously.

1.80 INTEREST RATES 28

There has been a slight upwards adjustment in interest rates here. The forecast here includes gradual declines in interest rates over the next few years.

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2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 30

In this issue, forecasts of unemployment rates for the year 1980 have been selected for comparison.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The basic forecast in this issue has not been changed. Starting with the December, 1980 issue, the broad thrust of the Reagan program's concerning the 10 per cent income tax cuts, the Federal budget cuts, and the accelerated depreciation allowances have incorporated into the calculations.

On February 18, Reagan announced the details of his plan. Some data in that address were slightly different from the earlier rough draft indications which had been included in the two prior issues of this KEDI forecast. Minor adjustments in a few areas have been made because of this and for two other reasons.

First, the Department of Commerce announced their routine revision of National Income and Product Data for the fourth quarter of 1980: the estimate of fourth quarter growth in real GNP was lowered to a seasonally adjusted 4 per cent annual rate from the earlier calculation of 5 per cent.

Also, there was a bit more strength in the performance of certain aspects of the economy during January than had been predicted. Housing starts, retail sales, and employment slightly exceeded the estimates that had been made here in the past few months.

Putting these elements together, has lead to the following small changes in the forecast:

OVERVIEW

Instead of the earlier estimate of 1.6 per cent real growth in GNP for 1981, that has been revised to 1.7 per cent as compared to 1981.

The forecast for the inflation rate this year has been revised by KEDI from 12.4 per cent to 12.2 per cent.

Very minor upward revisions in housing starts, personal consumption, and interest rates anticipated have been made.

As compared with the Reagan plan, the forecast here is, in general, more pessimistic. The accompanying table presents the forecasts in four areas with GNP and inflation given as percentage changes over the prior year. The deficit calculations are for fiscal years.

	GNP (Growth Rates)		Inflation (CPI base)		Unemployment rate		Federal Deficits Billions of $	
	Admin.	KEDI	Admin.	KEDI	Admin.	KEDI	Admin.	KEDI
1981	1.1%	1.7%	11.1%	12.2%	7.8%	7.5%	-54.5	-56.2
1982	4.2%	3.4%	8.3%	11.0%	7.2%	7.2%	-45.0	-38.7
1983	5.0%	3.8%	6.2%	10.7%	6.6%	6.8%	-22.9	-34.2
1984	4.5%	3.6%	5.5%	10.2%	6.4%	6.7%	+.5	-25.3
1985	*	3.0%	4.7%	10.6%	6.0%	6.8%	*	-21.2
1986	*	3.2%	4.2%	10.1%	5.6%	6.6%	*	-24.7

* Unknown figures

As can be seen in the preceeding comparison of forecasts, the main difference between KEDI and the Administration is the INFLATION RATE.

OVERVIEW

Apparently, the Reagan planners are counting on a certain degree of change in the expectations of the business community. That is, it appears, they figure those in the business world will believe that the rate of inflation will go down and through their actions, that will automatically reduce the rate of inflation. KEDI is not as optimistic about the expectations being changed to any significant degree - or the rate of inflation. Also, the wage escalators built into the wage contracts for the next 2-3 years, will keep pushing the costs and prices upwards.

There is the additional factor, mentioned in the January issue, of the connection of the U.S. economy with the rest of the world. It is expected here that worldwide inflation will be in the 10 per cent range for each of the next five years. Through international trade and banking and currency connections, there are rippling effects to and from this country. The rate of inflation (and interest rate levels) will continue to be intertwined with that of other major nations and oil producing nations with a hold on purse strings that makes them "major" in terms of influence and power.

The position at this Institute is that the key aspect to the program are the ACCELERATED DEPRECIATION ALLOWANCES for businesses. That will give a boost that is sorely needed in productivity. Calculations show that the proposals, if adopted, would help to increase business capital outlays each year in the 1982-85 period by about 2 or 3 per cent instead of the present estimate of the gain between 1980 and 1981 of just about 1 per cent. The gain in business capital outlays would generate annual increases in

productivity of 1.5 - 1.7 per cent. That is certainly a favorable change when it is compared to the average 0.5 per cent annual DECREASES that more aptly describe the 1979-81 period.

Productivity is a main ingredient in the scrimmages fought in the long haul of the inflation battle. It cannot be ignored.

Another aspect of the program that is important are the proposed budget cuts. Budget cuts are necessary as they are the first steps toward controlling inflation. The income tax cuts are also important because without them, the burden of such taxes would soon become too hard to bear and the consequences economically in terms of declining purchasing and increasing debt would be calamitous.

It is KEDI's evaluation, that steps in the right direction are included in the Reagan program. The analysis conducted by this Institute shows that the program is economically feasible and can be realized with positive effects for our economy. The KEDI forecast demonstrates that the Administration's goals are too optimistic. The goal of drastic reductions in the rate of inflation and significant lessening of the Federal deficit are not likely to be attained. On the other hand, it is shown, that the program can lead to the resumption of growth in productivity and in per capita real income in the foreseeable future.

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Table 1.0
KEDI FORECAST HIGHLIGHTS

Correction: This Table 1.0 had two errors in the January issue. First, the last column of data was for 1985, but the column was incorrectly headed as 1983. Secondly, the figure for the Implicit GNP Price Deflator should have been 266.6 for 1985 not 252.6 We are sorry.

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.9	1516.5	1158.5	1727.6
Index of Industrial Production	1967 =100	147.1	153.1	161.3	186.4
Capacity Utilization	%	78.7	78.6	84.8	87.6
Unemployment Rate	%	7.2	7.5	7.2	6.8
Private Housing Starts	mil. units	1.303	1.576	1.651	1.849
Car Sales	mil. units	9.1	9.5	9.5	11.8
Implicit GNP Price Deflator	1972 =100	177.4	194.6	211.1	267.9
Consumer Price Index	1967 =100	246.7	276.7	307.4	433.8
Producer Price Index	1967 =100	269.8	305.1	341.3	471.2
Federal Deficit	bil. $	-64.1	-57.3	-36.8	-24.1
Personal Income	bil. $	2160.2	2411.7	2694.4	3774.5
Prime Rate	%	15.10	16.95	14.87	11.60
Mortgage Rate	%	12.97	13.95	13.07	10.90
Currency plus Demand Deposits	bil. $	377.4	394.3	419.4	518.9
Commercial and Industrial Loans	bil. $	313.6	334.8	366.8	432.7

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 3, 4, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

4. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated.

ASSUMPTIONS

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984	1985
West Germany	1.1%	1.6%	2.3%	3.1%	3.4%
Japan	1.5%	2.3%	3.3%	3.6%	4.0%
Italy	1.3%	1.8%	2.5%	2.8%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%	2.7%
France	1.7%	2.3%	2.7%	2.8%	3.0%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH

(Table 1.10 on page 11)

Recently released data are confirming the general view that has been expressed here that there would not be declines in the economy during the first quarter. More growth is predicted for the second half of this year.

REAL GROWTH

Housing starts were up in January. The gain was slight, but given the high mortgage rates, the seasonally adjusted rate of 3.4 per cent over the last month of 1980 does show the economy is hardly going in the dumper.

Retail sales went up by an adjusted 2 per cent in January. That provided the eighth month in a row of gain's in the seasonally adjusted totals for such sales. Actual sales showed declines as is typical in January. Also, the Commerce Department revised their estimate of the sales record for December. Earlier, sales were said to have declined an adjusted 1.3 per cent. That was changed to an estimate of an adjusted increase in December over the prior month of 0.3 per cent. (The sales totals in January bring to mind the consumer carefully planning ahead and bargain shopping at the January sales, perhaps even picking up greeting cards for December of 1981 and "squirreling" away a few Christmas or birthday gifts bought at the January reduced prices.)

The unemployment rate in January remained unchanged at 7.4 per cent. The outlook expressed here that the first part of this year would average out to being nearly flat is brought to mind when the jobless figure is considered.

For the sixth consecutive month, industrial production went up. The January gain of a seasonally adjusted 0.6 per cent followed the December rise of 1.0 per cent over the prior month. These gains have occurred

REAL GROWTH

despite the devitalized condition of the auto and a part of steel industries. The Federal Reserve's index of the output of utlities, factories, and mines was at 151.8 per cent in January of the average in 1967. That was 0.6 per cent lower than the level in January of 1980. The index has shown continuing strength in machinery.

Although the growth rate for GNP in the fourth quarter was lowered from 5 to 4 per cent, real growth of 4 per cent certainly can be viewed as good news especially when there were those that expected none at all.

The revision reflected that consumer sales were stronger than the Commerce Department had anticipated and that business inventories were reduced to a much larger extent. Courtenay Slater, chief economist, indicated that the tight inventories resulting point to some growth in the near future as there is little left to sweep off the shelves which means production increases in the first part of this year.

KEDI never predicted a recession for the first quarter of 1981. The majority of forecasters did just that and NOW they are adjusting their views. Whereas some were saying the economy would be grinding to a halt, they now have changed their pronouncements to agreement with the view of this Institute--slow growth.

The survey of 43 prominent forecasters by Robert J. Eggert published in early January showed that the average forecast at that time pointed to

REAL GROWTH

a drop in economic activity during the first quarter that averaged out to an annual rate decline of 1.1 per cent. Early this month, the average of that figure had moved to just 0.4 per cent. The most recent survey also showed a broader range among the forecasters. The most optimistic was a prediction of 3 per cent growth in 1981 and the least favorable was the forecast of 1 per cent decline this year.

The uncertainty among forecasters is typified by a quotation from the chairman of an investment-advisory firm concerning the assortment of economic and political scenarios, "...based upon ample evidence for each case, it could be argued that things are likely to get better, stay about the same or become materially worse in the next 12 to 18 months." He went on to indicate that a new decline may begin in the next six months, and it just is not reasonable to forecast beyond that point at this time. (The Wall Street Journal, Harold Ehrlich, page 1, February 2, 1981.)

This Institute is not uncertain. The Kent Forecasting System projects real GNP growth of 1.7 per cent for 1981. As no forecast for declines were made concerning the first part of this year or any part of this year, no revisions of that nature have had to been made here.

The news of growth in retail sales, housing starts, and the gain in industrial production is balanced somewhat by the continued problems in the auto industry. New car sales went down in January by 20 per cent when compared to the year-earlier figure. However, since the performance at that time was quite strong, such a comparison makes it look worse than

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TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.9	1490.1	1498.2	1509.7	1528.1	1506.5
Index of Industrial Production	1967=100	147.1	152.0	152.4	153.0	154.8	153.1
Unemployment Rate	%	7.2	7.6	7.6	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	76.7	77.2	78.9	81.7	78.6
Private Housing Starts	mil. units	1.303	1.430	1.565	1.684	1.624	1.576
Car Sales	mil. units	9.1	8.7	8.9	8.9	9.4	9.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1516.5	1532.9	1546.3	1568.1	1586.7	1558.5
Index of Industrial Production	1967=100	153.1	157.0	159.6	163.0	165.6	161.3
Unemployment Rate	%	7.5	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	78.6	82.8	84.4	85.7	86.4	84.8
Private Housing Starts	mil. units	1.576	1.478	1.640	1.759	1.729	1.651
Car Sales	mil. units	9.5	9.1	9.5	9.8	9.5	9.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.5	1591.5	1611.8	1630.2	1640.1	1618.4
Index of Industrial Production	1967=100	161.3	167.1	170.3	173.8	176.1	171.8
Unemployment Rate	%	7.2	6.9	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	84.8	85.3	86.4	86.9	87.3	86.5
Private Housing Starts	mil. units	1.651	1.539	1.872	2.017	1.756	1.796
Car Sales	mil. units	9.4	9.4	9.8	9.6	10.3	9.8

* Historical Data

it actually is, and its bad enough without doing that. Analysts pointed to the seasonally adjusted data which showed some improvement in the annual rate when January is compared to December, 1980 adjusted data. KEDI does foresee some increase in the number of cars sold this year as compared to last year. (The reader is referred to Table 1.0 on page 5.) Still it must be remembered that 1980 was a year of declining auto sales and that gains forecast for this year over 1980 are not substantial.

1.20 PRICES
(Table 1.20 on page 15)

KEDI maintains its forecast of high inflation rates in 1981 and throughout the first half of this decade. The prediction for 1981 is 12.2 per cent gain in the CPI over 1980. The 1982 figure is 10.8 per cent. The long-term outlook shows that food prices will continue to increase at roughly 10 per cent a year during the 1981-85 period. The annual rate of gain in the price of electricity will be about 8 per cent. Natural gas will go up by about 12 per cent and gasoline, heating oil, and coal by 9 per cent. Medical services are expected by KEDI to gain at annual rates of approximately 10 per cent. Housing items are calculated to go up in the 8-10 per cent range. These are the main items in the Comsumer Price Index.

PRICES

When compared with the 3-5 per cent rate of inflation that is anticipated by the Administration for the 1984-85 period, the outlook in Washington is simply way off the mark. One wonders if their figures are "real" calculations or if they are issued in hopes that such pronouncements will have an impact by changing our expectations of future inflation and changing our behavior accordingly.

Again, prices throughout the world will be rising over the next few years. The U.S. economy will not be isolated from the expected 10 per cent annual gains in average prices worldwide.

Recently released data point to continued high rates of price escalation. Producer prices leaped ahead by 0.9 per cent in January on a seasonally adjusted basis. Almost 40 per cent of the jump resulted from higher prices for fuels. The increase in January was the largest since last August. The decontrol of oil will continue to fuel the fires of the gains in this area. The price shove that decontrol will give will begin to be reflected next month.

After the President announced the decontrols, the major oil companies immediately started to raise prices. For instance, Exxon increased its prices for all oil products by eight cents a gallon in early February. First they announced a three cent rise and a few days later they added another nickel. Such gains did not exactly fit in with David Stockman's statement that decontrol would lead to price gains of three to five cents over a <u>few months</u>.

PRICES

Consumer prices went up at an annual rate of 9.1 per cent in January. That was a bit of a slowdown, but as all analysts agree, it was only temporary. The jump in producer prices have not yet moved to corresponding gains in consumer prices. KEDI expects that the Consumer Price Index will again be at an annual rate in the 10 digit range in the coming months. The main elements here will be energy and food items.

According to the monthly survey by the National Association of Purchasing Management Inc., 64 per cent of purchasing managers reported paying higher prices in January then they did in December. In December, 54 per cent said they were paying more.

The Commerce Department reported that steel-import "trigger" prices will go up by 4.4 per cent in the second quarter. That action would result in an import price of not less than $422.95 per net ton for integrated steel mill products. The trigger price program began in 1978 as an effort to help protect the steel industry in this country. The prices are pegged to the prices for products made in Japan because of their efficiency.

In terms of the forecast here, the changes are minor in that there is a small adjustment in the forecast for the CPI due mainly to the downwardly revised data for Housing Items.

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TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	263.1	273.0	281.7	288.9	276.7
Producer Price Index, NSA	1967=100	269.8	289.2	301.4	309.8	320.0	305.1
Implicit GNP Price Deflator	1972=100	177.4	188.2	193.1	196.9	200.1	194.6
Gross National Product	bil. $	2626.5	2804.8	2893.0	2973.1	3057.6	2932.1
Personal Consumption Expenditures	bil. $	1672.5	1658.4	1771.8	1828.9	1876.1	1783.8
Gross Private Dom. Investment	bil. $	395.4	408.5	418.7	429.5	449.7	426.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.7	298.1	302.6	309.6	319.1	307.4
Producer Price Index, NSA	1967=100	305.1	328.7	337.9	345.6	352.8	341.3
Implicit GNP Price Deflator	1972=100	194.6	205.1	209.0	213.9	216.9	211.1
Gross National Product	bil. $	2932.1	3144.6	3232.1	3347.6	3442.3	3291.6
Personal Consumption Expenditures	bil. $	1783.8	1933.3	1983.4	2062.9	2114.9	2023.6
Gross Private Dom. Investment	bil. $	426.6	468.2	493.9	515.7	528.4	501.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	307.4	326.7	335.9	345.9	352.8	340.3
Producer Price Index, NSA	1967=100	341.3	360.1	370.2	378.7	388.3	374.3
Implicit GNP Price Deflator	1972=100	211.1	221.4	225.6	231.2	235.9	228.5
Gross National Product	bil. $	3291.6	3523.9	3636.7	3769.7	3868.5	3699.7
Personal Consumption Expenditures	bil. $	2023.6	2163.4	2235.8	2334.1	2404.8	2284.5
Gross Private Dom. Investment	bil. $	501.5	540.2	556.7	570.2	582.1	562.3

* Historical Data

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 17)

The forecast of the unemployment rate by KEDI for the first quarter has been changed from a seasonally adjusted average of 7.8 per cent calculated for the last issue to 7.6 per cent. The January rate of unemployment of 7.4 per cent reported by the Labor Department was lower than what had been anticipated here, due mainly to the production gains in machinery. (If a forecast is going to be out of line with what does occur, it's almost nice to report the "good" news that joblessness was not quite as high as had been calculated earlier.) KEDI expects that there will be a similar rate in the second quarter and slight declines in the latter half of this year.

Some forecasters still maintain that there will be a peak of 8 per cent in the unemployment rate in 1981. For example, Data Resources is predicting an 8 per cent peak late this spring or in early summer as they anticipate consumer spending to weaken.

KEDI does not see anything like that at all. Consumer demand in the forecast here remains strong throughout the year.

Assuming that the Labor Department is correct in its estimate of the 7.4 per cent unemployment rate in January, then there is no way that first quarter unemployment can reach the 7.8 - 8.0 per cent level. Even KEDI was off but not by such a wide margin as other forecasters.

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.5	98.9	99.7	100.4	99.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.2	95.6	96.3	97.1	96.1
Unemployment Rate	%	7.19	7.61	7.59	7.47	7.42	7.52

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.4	101.1	101.7	102.9	103.7	102.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.1	97.7	98.5	99.6	100.4	99.0
Unemployment Rate	%	7.52	7.35	7.26	7.07	7.10	7.20

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.4	104.9	106.1	106.6	107.5	106.3
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.6	102.7	103.3	104.1	102.9
Unemployment Rate	%	7.20	6.94	6.89	6.75	6.61	6.80

* Historical Data

EMPLOYMENT AND LABOR

In January the number of people actually reported without jobs moved up to the 8.5 million range from the 7.2 million level in December. That boosted the actual rate of unemployment to 8.2 per cent from the December figure of 6.9. The statistical adjustment for the typical December/ January change showed unemployment going up 0.8 per cent to 7.85 million in January and the seasonally adjusted rate holding at 7.4 per cent. The adjusted jobless rate for adult males declined to 6 per cent in January from the 6.2 per cent level in the prior month. The rate for women edged down from 6.8 to 6.7 per cent, but the jobless rate for teens moved up to 19 per cent from the December level of 17.8 per cent.

The forecast of the average workweek remains unchanged here. It will show slight increases in each quarter of this year.

1.40 HOUSING
(Table 1.40 on page 20)

Housing starts went up in January by 3.4 per cent over the prior month to a seasonally adjusted annual rate of 1.585 million units. In January of 1980, the rate was 1.3 million units, and it was 1.7 million in the first month of 1979. The January gain was due to the jump in multifamily units. Such construction was up by 14.8 per cent over the December level, whereas single-family unit construction was down by 3.1 per cent. On a year-to-year comparison, multi-family unit building gained by almost

HOUSING

52 per cent, and one-family house building went down by 2.5 per cent from January of 1980.

The forecast by KEDI is roughly in line with other predictions. It is expected here that housing unit starts will increase gradually throughout this year.

Jonathan Goldfarb of Merrill Lynch, Pierce, Fenner & Smith Inc. indicated that housing starts will decline in the next few months but will then move upward. His estimate of total starts for this year is 1.5 million units, the figure for 1982 is projected at 1.8 million, and for 1983 it is 2 million.

As can be seen in Table 1.40, single and multifamily housing starts projected by this Institute total 1.58 million for 1981, 1.64 for 1982, and 1.79 for 1983. Hence, the forecast here is a bit less optimistic for 1982 and 1983 than that of Mr. Goldfarb, but a bit more favorable for the current year.

Chase Econometric Associates Inc. forecast housing starts in the fourth quarter at an annual rate of 1.56 million units. Calculations here put that total just a bit higher--1.62 million starts.

KEDI agrees with the general view that homeowning will not be as easy an accomplishment as it was in recent decades. The high cost of credit, the rising cost of energy, and inflation eroding the value of the paycheck

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.975	1.073	1.014	.978
Multifamily Housing Starts	mil.	.474	.580	.590	.611	.610	.600
Mobile Home Shipments	mil.	.222	.245	.287	.305	.322	.290
Housing Permits Issued	mil.	1.117	1.025	1.568	1.723	1.701	1.505
Construction Costs-Commerc.	1972=100	198.5	209.2	218.1	222.9	233.1	220.8
Construction Costs-Resident.	1972=100	198.6	211.0	217.9	222.0	233.4	221.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.978	.885	1.041	1.133	1.098	1.039
Multifamily Housing Starts	mil.	.600	.593	.599	.626	.631	.612
Mobile Homes Shipments	mil.	.290	.302	.334	.371	.390	.349
Housing Permits Issued	mil.	1.505	1.498	1.790	1.901	1.760	1.737
Construction Costs-Commerc.	1972=100	220.8	239.1	252.9	261.0	269.4	255.6
Construction Costs-Resident.	1972=100	221.1	238.3	250.4	259.6	267.3	253.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	1.039	.905	1.163	1.285	1.107	1.115
Multifamily Housing Starts	mil.	.612	.634	.709	.732	.649	.681
Mobile Homes Shipments	mil.	.349	.356	.382	.391	.348	.369
Housing Permits Issued	mil.	1.737	1.805	1.993	1.894	1.723	1.853
Construction Costs-Commerc.	1972=100	255.6	277.6	287.1	297.3	310.2	293.1
Construction Costs-Resident.	1972=100	253.9	275.8	286.3	296.5	308.4	291.8

* Historical Data

HOUSING

and increasing housing costs are all taking their toll on the American Dream. People that do buy will have to make more sacrifices such as buying a smaller home than they had hoped for, using a higher portion of their income for housing and trimming off from other areas, and relying more on some income from a second wage earner in the household.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 23)

The forecast incorporates the Administration's plan of income tax cuts, budget cuts, and accelerated depreciations. Provided that the Administration's proposal, as announced February 18, 1981 are enacted, the following calendar year, Federal deficits are projected by KEDI.

1981: $57.3 billion

1982: $36.8 billion

1983: $36.4 billion

1984: $28.6 billion

1985: $24.1 billion

A surplus of $500 million in fiscal 1984 is projected by the Administration. This is obviously not foreseen here.

The analysis shows that the differences between the Administration's and KEDI's projections are mainly in the following:

GOVERNMENT BUDGETS

The Administration projects lower rates of inflation than KEDI, especially for the years 1982-1985. But even for 1981, the calculation for the inflation rates are over a full percentage point apart. See page 5 of 1.01, Overview.

Consequently: Federal budget outlays for Social Security, Medicaid and Defense in KEDI's projection are higher because of adjustments due to inflation. Tax receipts are projected in approximately the same amounts by KEDI and by the Administration. The resulting deficit in KEDI's projection is necessarily higher.

In the forecast by this Institute, the income effects of the proposed 10 per cent tax cuts are partially offset by the projected increases in income and property taxations by State and Local Governments. It is anticipated, that the Administration's plan will result in 1981-84 yearly average reductions of $10 billion in Federal grants-in-aid to State and Local Governments. The smaller receipts of State and Local Governments from the Federal Government will be partially compensated by increasing local taxation. As is shown in Table 1.50 on page 23 the condition of State and Local Government Budgets change from a projection of $26.2 billion surplus in 1981 down to $22.5 billion surplus in 1982 and up again in 1983 to $24.6 billion.

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TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	256.4	278.0	286.9	291.4	298.0	288.6
Corporate Profit Tax Accruals	bil. $	69.7	75.9	82.2	87.8	95.8	85.4
Surplus./Deficit	bil. $	-64.1	-65.8	-59.9	-54.5	-48.9	-57.3
State and Local Governments:							
Income Taxes	bil. $	80.2	87.0	88.9	91.5	94.8	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.2	14.6	15.8	16.4	15.0
Surplus./Deficit	bil. $	27.1	28.4	27.4	25.2	23.8	26.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	288.6	309.3	317.8	328.5	338.6	232.6
Corporate Profit Tax Accruals	bil. $	85.4	102.2	109.5	117.0	124.2	113.2
Surplus./Deficit	bil. $	-57.3	-44.5	-37.6	-31.6	-33.6	-36.8
State and Local Governments:							
Income Taxes	bil. $	90.3	95.9	98.3	101.7	104.0	100.1
Corporate Profit Tax Accruals	bil. $	15.0	17.0	18.1	18.5	20.1	18.4
Surplus./Deficit	bil. $	26.2	23.2	21.1	21.9	22.9	22.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	323.6	349.9	360.7	374.0	385.6	367.6
Corporate Profit Tax Accruals	bil. $	113.2	131.8	137.6	143.2	150.6	140.8
Surplus./Deficit	bil. $	-36.8	-37.0	-39.8	-36.2	-32.6	-36.4
State and Local Governments:							
Income Taxes	bil. $	100.1	106.7	108.9	110.8	113.1	109.9
Corporate Profit Tax Accruals	bil. $	18.4	20.9	21.8	23.1	24.6	22.6
Surplus./Deficit	bil. $	22.5	23.0	23.6	24.7	25.2	24.6

* Historical Data

1.60 INCOME

(Table 1.60 on page 25)

The increase in personal disposable income in 1981 over the former year is projected at 12.2 per cent in 1982; 11.7 per cent in 1983; 14.2 per cent in 1984; and 14.6 per cent in 1985, provided that the Federal income tax cuts are enacted.

The growth rate of personal disposable income in 1983-1985 will be substantially faster than that of the personal income due to the tax cuts. Measured per capita and adjusted by inflation, it is projected here, that, after 4 years of stagnation from 1977 through 1981, per capita real disposable income will resume growth.

The forecast of profits is somewhat optimistic. KEDI projects, that, in general, the corporation's after tax profits in 1981 will grow by 10 per cent, and more robust growth of 12.4 per cent is expected in 1982. These figures are not adjusted for inflation.

Leading in profits in 1981 will be oil companies, which will make most of their profits from production of oil rather than on marketing and refining. Aircraft and aerospace, ordnance and defense industries, chemicals, and electrical and nonelectrical machinery will also lead in profits. Healthy increases of profits are projected for steelmakers, rubber, and mining. Moderate increases in profits are expected for railroads, nonferrous metals mainly aluminum, paper and products, wholesale and retail trade, and textiles. Low profits or some losses are expected in 1981 for the automobile industry, forest products, and building materials.

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TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2320.0	2379.1	2450.4	2497.3	2411.7
Personal Dispos. Income	bil. $	1821.6	1954.9	2003.5	2067.5	2105.9	2032.9
Compensation of Employees	bil. $	1596.5	1783.2	1835.5	1901.7	1936.5	1864.2
Corp. Profits After Tax	bil. $	161.1	167.8	173.1	180.4	188.3	177.4
Personal Saving	bil. $	101.8	87.9	88.4	91.6	92.3	90.1
Average Weekly Earnings	$	297.4	312.1	313.3	315.2	320.1	315.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2411.7	2573.5	2645.1	2737.9	2821.3	2694.4
Personal Dispos. Income	bil. $	2032.9	2168.3	2228.9	2307.6	2378.6	2270.9
Compensation of Employees	bil. $	1864.2	1996.3	2054.7	2133.8	2213.0	2099.5
Corp. Profits After Tax	bil. $	177.4	190.0	196.9	202.4	208.8	199.5
Personal Saving	bil. $	90.1	93.5	94.7	95.6	97.1	95.2
Average Weekly Earnings	$	315.2	323.1	325.2	332.7	336.8	329.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2694.4	2887.9	2990.6	3111.5	3176.0	3041.5
Personal Dispos. Income	bil. $	2271.4	2431.4	2551.0	2628.6	2677.1	2572.0
Compensation of Employees	bil. $	2099.5	2237.2	2318.8	2423.9	2470.0	2362.5
Corp. Profits After Tax	bil. $	199.5	216.9	217.7	223.4	228.7	221.7
Personal Saving	bil. $	95.2	98.2	99.4	101.5	103.4	100.6
Average Weekly Earnings	$	329.5	338.4	342.6	345.7	248.7	343.9

* Historical Data

1.70 MONEY AND CREDIT
(Table 1.70 on page 27)

The forecast of monetary aggregates and the policy anticipated of the Federal Reserve remains unchanged. Monetary policy will continue to be tight throughout the 1981-85 period. No dramatic easing in monetary restraints is foreseen as the entire period will be characterized by strong inflationary pressures.

It was recently revealed that the Federal Peserve will again tighten up the growth of money and credit this year. One decision made behind closed doors in a meeting of the Federal Open Market Committee in early February was to try to cut monetary growth by an added 0.5 per cent in 1981.

KEDI anticipates that there will be a bit of relaxation in the tight money policy in order to allow some for economic growth. However, any relaxations will be very cautious. They will not be abrupt. Small degrees of lessening the tight policies will take place over an extended period of time.

In the present forecast, the projection for negotiable CD's has been increased. It is anticipated here that the importance of large CD's as a source of providing funds for loans will grow permanently throughout the 1981-85 period.

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	384.0	389.1	395.9	408.2	394.3
Time Deposits, Adjusted, M2	bil. $	1596.2	1660.1	1673.1	1710.8	1733.9	1694.5
Consumer Instal. Credit	bil. $	310.5	314.5	317.9	324.0	328.2	328.2
Commerc. and Industr. Loans at Banks	bil. $	313.6	316.2	318.0	325.8	334.8	334.8
Negotiable Cert. of Deposits	bil. $	129.2	136.9	142.3	147.1	149.5	149.5
Mortgages at S & L Assns.	bil. $	486.5	496.6	502.4	510.1	518.9	518.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	394.3	412.1	416.5	421.3	427.5	419.4
Time Deposits, Adjusted, M2	bil. $	1694,5	1730.2	1767.2	1798.5	1833.4	1782.3
Consumer Instal. Credit	bil. $	328.2	335.3	339.8	347.6	354.1	354.1
Commerc. and Industr. Loans at Banks	bil. $	334.8	342.6	349.8	358.7	366.8	366.8
Negotiable Cert. of Deposits	bil. $	149.5	152.4	153.1	154.0	153.7	153.7
Mortgages at S & L Assns.	bil. $	518.9	524.1	527.8	534.3	540.2	540.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	419.4	434.2	440.6	452.3	460.1	446.8
Time Deposits, Adjusted, M2	bil. $	1782.3	1856.1	1917.4	1960.5	2010.5	1936.1
Consumer Instal. Credit	bil. $	354.1	362.7	369.8	380.4	389.7	389.7
Commerc. and Industr. Loans at Banks	bil. $	366.8	372.3	380.5	385.6	390.3	390.3
Negotiable Cert. of Deposits	bil. $	153.7	154.0	155.1	156.7	156.4	156.4
Mortgages at S & L Assns.	bil. $	540.2	543.5	545.8	548.1	552.6	552.6

* Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 29)

As compared with the January forecast by this Institute, in this one, interest rates have been slightly increased for the entire first half of the decade. Still, the changes are small ones as fractions of per cents are involved.

The trend projected here remains the same. Interest rates are seen as declining gradually throughout the 1981-85 years with some resumption of gains in 1985.

Some economists anticipate a credit crunch or a dramatic change in interest rates. That is not the view here. The forecast that looks to interest rates above 20 per cent for short-term rates and close to 19 per cent for long-term rates as existing by the latter part of this year is not one shared by KEDI. Money willnot be that tight.

This Institute does not agree with Henry Kaufman's assessment that interest rates will move upward in an irregular pattern with the prime rate going up to or beyond 21 and 1/2 per cent sometime this year. As is shown in Table 1.80, the prime rate is seen as moving gradually downward to the 15.5 per cent range in the last quarter of this year.

KEDI does not anticipate a prime rate in the 20 per cent range or above toward the end of this year, nor is any sudden lack of fresh credit on the horizon. As compared with the January issue of this survey, no essential changes in the February stock market forecast took place.

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TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.86	13.49	12.46	11.38	10.86	12.05
Prime Rate	%	15.10	18.51	17.34	16.40	15.57	16.95
Mortgage Rate, New Homes	%	12.96	14.30	14.19	13.83	13.47	13.95
Aaa Bonds Rate	%	11.89	12.37	12.16	11.75	11.08	11.84
Long Term Govt. Bonds Yield	%	10.96	11.50	11.21	10.96	10.74	11.10
Standard & Poor's 500 Average	1941-43 =10	114.70	118.30	121.58	124.72	126.95	122.89

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.05	11.14	10.38	10.26	10.40	10.55
Prime Rate	%	16.95	15.21	15.19	14.73	14.35	14.87
Mortgage Rate, New Homes	%	13.95	13.24	13.08	13.01	12.96	13.07
Aaa Bonds Rate	%	11.84	10.81	10.72	10.60	10.41	10.64
Long Term Govt. Bonds Yield	%	11.10	10.21	10.18	10.26	10.23	10.22
Standard & Poor's 500 Average	1941-43 =10	122.89	126.78	126.43	124.05	126.74	126.00

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.55	10.14	10.11	10.34	10.49	10.27
Prime Rate	%	14.87	14.01	14.32	13.47	13.51	13.83
Mortgage Rate, New Homes	%	13.07	12.47	12.38	12.69	12.91	12.61
Aaa Bonds Rate	%	10.64	10.23	10.37	10.51	10.86	10.49
Long Term Govt. Bonds Yield	%	10.22	10.19	10.31	10.48	10.64	10.40
Standard & Poor's 500 Average	1941-43 =10	126.00	127.18	128.71	126.15	125.21	126.81

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the unemployment rate has been selected for comparison. Actual figures for the year 1980 have been computed from three main sources: Survey of Current Business (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), blue pages, December 1980 issue; estimates of unemployment of the U.S. Department of Labor for December 1980 and January 1981; forecast data from the Conference Board Statistical Bulletin (The Conference Board, Inc., New York, N.Y.), Vol. 12, pp. 8, 9, December 1979. The following table shows the predictions of forecasters and the deviations of forecast data.

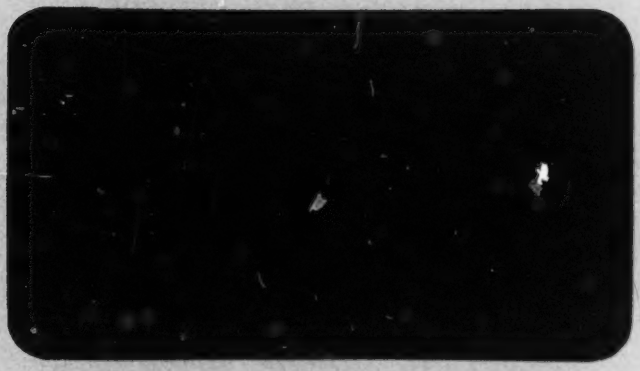
Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
UNEMPLOYMENT RATE
(Year 1980, % of civilian labor force)

Actual: 7.2

Forecaster	Forecast	% of Accuracy
ASA-NBER Survey of Regular Forecasters	7.3	+ 1.3
Merrill Lynch Economics, Inc.	8.1	+12.5
KEDI	6.9	- 4.2
Michigan Research Seminar	7.1	- 1.4
The Conference Board	7.6	+ 5.5
Chase Econometric Associates, Inc.	7.7	+ 6.9
Data Resources, Inc.	7.3	+ 1.3
Wharton E.F.A., Inc.	7.7	+ 6.9

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Vol. 6, No. 10, March 31, 1981

KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

March 31, 1981

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

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1.01 OVERVIEW 1

There has been some slight revisions downward in some aspects of the forecast, but overall KEDI views inflation as still being higher than what the Administration predicts and growth as being just a bit higher also for this year. For 1982, inflation is seen as somewhat higher and growth lower than the Reagan prediction

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Retail sales still showed strength in February. The good news for car sales is temporary. The capital outlays area is seen as still showing small expansion. The major bad news is from the housing sector. There will not be a rapid recovery here.

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The forecast for the inflation rate has been lowered here from 12.2 to 12.0 per cent for 1981. The 1 per cent February jump in consumer prices is not typical of the months to come. However, there will be continued ripples of price rises of energy items.

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There has been some downward revision for first quarter unemployment here, but the average for the year forecasted, 7.5 per cent, remains the same. Compared to other forecasters, KEDI is the most optimistic.

1.40 HOUSING 16

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1.50 GOVERNMENT BUDGETS 19

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1.60 INCOME 21

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The forecast remains essentially the same. Slight declines in restrictive policy in this second quarter will be somewhat offset by a bit of pulling in the reins later this year.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 26

The prime rate will remain in its present level for a few months and decline again by the end of the year to the 15 per cent range. The stock market will remain in the 900-1000 area this year.

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2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 29

In this issue, forecasts of Consumer Price Index for the year 1980 have been selected for comparison.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI has been analyzing the Reagan plan since it was first announced as a proposal. For this continuing story, see the three most recent issues: December, January, and February.

It has always been maintained here that the PLAN IS FEASIBLE, BUT IT IS TOO OPTIMISTIC. Even for the first quarter of 1981, the Administration's forecast is unrealistic in expecting that there will be an inflation adjusted annual rate of growth of 5 per cent. The Commerce Department announced that the projection was based on very preliminary data, while at the same time they made note of the bit of gain in auto sales and the firmness of consumer spending to give credence to their estimate.

The forecast of growth for the first quarter by this Institute is about half that of the Administration: 2.6 per cent only. KEDI is not alone in this conclusion. Private forecasters have been using figures more typically in the 1.5 - 2.5 per cent area. The consensus of forecasting firms covered by Robert Eggert showed an average real first quarter gain in inflation adjusted growth of 2.1 per cent.

Some economists predict a downturn in the second quarter and, perhaps, the third quarter of this year. (Even Reagan officials speak in terms of that as being a possibility.) For instance, Chase Econometrics is

OVERVIEW

predicting some decline during the second quarter, but no long-term downward movement is forecast by them.

KEDI does not share that view. The position is maintained here that during this year, the economy will show some growth. The next two quarters will continue to show neither great strength nor weakness. The fourth quarter will show more definite improvement.

Looking forward more than just one quarter, President Reagan expressed a more cautious view in acknowledging that his program would not produce any "instant cure", but that by the end of 1982 there would be progress in curtailing both high inflation and high unemployment. For 1981, his advisers point to an inflation-adjusted gain in GNP of 1.1 per cent. They also see inflation as measured by the CPI going up 11.1 per cent.

KEDI calculates that the economy will perform a bit better than that in overall growth by gaining 1.6 per cent. However, inflation is seen here as being somewhat more costly. The forecast is currently at 12.0 per cent for the year.

For 1982, at this time, the Administration looks to next year as showing GNP rising by 4.2 per cent over this year and price gains at a lower rate of 8.3 per cent. Again, this Institute predicts that inflation will be higher than that. However, real growth will be lower. The projection here for 1982 inflation is 10.7 per cent, and growth is seen as amounting to 3.5 per cent.

OVERVIEW

In this forecast, as compared with the last one, three minor changes have been incorporated.

1. The forecast for the annual GNP growth rate has been decreased from 1.7 to 1.6 per cent due mostly to the actual performance in February and the drop in housing starts that was steeper than had been expected.

2. The rate of inflation, as measured by the Consumer Price Index, has been lowered from 12.2 to 12.0 per cent for this year. The reason behind the revision has to do with the price of houses and food.

3. There is a downward revision in the forecast of housing starts in 1981.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 1.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $53 per barrel. In 1984, to $58 per barrel, and in 1985, to $66 per barrel.

ASSUMPTIONS

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

4. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

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ASSUMPTIONS

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984	1985
West Germany	1.1%	1.6%	2.3%	3.1%	3.4%
Japan	1.5%	2.3%	3.3%	3.6%	4.0%
Italy	1.3%	1.8%	2.5%	2.8%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%	2.7%
France	1.7%	2.3%	2.7%	2.8%	3.0%

8. No drastic changes in existing international relationships are assumed in this forecast.

The KEDI forecast is highlighted in Table 1.0 on the following page.

1.10 REAL GROWTH
(Table 1.10 on page 10)

The forecast here remains basically the same despite a slight downward revision. During 1981 and 1982, there is no recession or any significant downturn expected by KEDI. Reasons for the view that 1981 will see some growth--1.6 per cent real growth--are found, for example, in recently released data.

1. Retail sales were strong in February. There are no indications that they will drop by any meaningful degree in months to come. February sales went up by 0.9 per cent, seasonally adjusted, from the January level. January sales were revised upward by the Commerce Department to

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KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1505.0	1558.1	1729.3
Index of Industrial Production	1967 =100	147.1	152.5	160.6	185.1
Capacity Utilization	%	78.7	78.3	84.6	87.4
Unemployment Rate	%	7.2	7.5	7.3	6.2
Private Housing Starts	mil. units	1.303	1.411	1.521	1.819
Car Sales	mil. units	9.1	9.1	9.5	11.4
Implicit GNP Price Deflator	1972 =100	177.4	195.1	211.7	268.1
Consumer Price Index	1967 =100	246.7	276.3	306.0	434.7
Producer Price Index	1967 =100	269.8	304.4	339.2	472.6
Federal Deficit	bil. $	-61.2	-54.5	-34.1	-23.5
Personal Income	bil. $	2160.2	2424.1	2717.4	3801.4
Prime Rate	%	15.10	17.20	15.23	11.72
Mortgage Rate	%	12.96	14.10	13.21	10.96
Currency plus Demand Deposits	bil. $	377.4	392.7	419.8	520.1
Commercial and Industrial Loans	bil. $	325.3	332.9	358.7	426.5

show a 2.9 per cent adjusted gain over the prior month. Some analysts had been expecting a decline in January, and when that did not materialize, they looked to a downward move in retail sales in February. Now that sales have shown a bit of gain, some are left in a slack-jawed posture.

All major categories of retail sales showed increases over the year-earlier period. At the top of the list are gasoline service stations. (Hardly a surprise--fatalism has set in as one pulls into the gas station and looks to see if the price has gone up again). Their sales went up by 19 per cent.

2. Care sales jumped ahead due mostly to rebates at Chrysler and GM. Buyers of midsize GM cars were offered $700 rebates, for example. Chrysler sales in early March were up by 51 per cent over the very depressed figure from a year ago. Overall, auto sales were up by 8.2 per cent in early March from the same period in 1980.

That is temporary. Sluggish sales are expected for the second quarter and slight improvement in the latter part of the year. Obviously, KEDI does not anticipate any dramatic decline in auto sales during the rest of the year.

3. The outlook for capital outlays remains somewhat bright. KEDI maintains the growth rate of 1 per cent for 1981, adjusted for inflation. That does correspond with the U.S. Department of Commerce forecast based

on their survey done in January and February. (KEDI does not always disagree with the Washington economists.) The survey showed that plant and equipment spending will go up this year by an adjusted 1 per cent. That is down from the prior survey in late 1980 when the projection by the Commerce Department was 1.5 per cent. By way of comparison, in 1980 such outlays went up by only 0.2 per cent according to preliminary figures.

4. New orders for durable goods managed to show some gain in February. Such orders had fallen in January by a revised 1.6 per cent from the December level. In February they crept up by 0.4 per cent on a seasonally adjusted basis. True, that is not much. However, there are no indications that there will be any drop to speak of in the near future. The backlog of orders went up last month by just 0.3 per cent following the January gain of about the same--0.4 per cent to be precise.

5. The outlook for agriculture remains unchanged. It is expected here that, given fair weather, near record crops will be harvested in wheat and corn. It appears farmers plans for planting are only a fraction of a per cent off of last year's acreage when yields were cut by the drought. There will be generally good harvests for soybeans, sorghum, and potatoes.

The above signs of small but real gains are counterbalanced by the news in housing and construction. Developments there point to weakness in coming quarters. The slight drop in February's industrial production does <u>not</u> point to further weakness.

REAL GROWTH

6. Housing starts plunged 24.6 per cent in February. No significant recuperation is expected during the rest of the year. The construction industry as a whole will show weakness during this year.

7. The outlook for performance by U.S. industry this year remains unchanged. KEDI considers the February decline in the Index of Industrial Production to be of a temporary nature. That measure had been on the rise since August of last year and by the first of this year it had reached the levels typical during 1979. The recovery in production of business equipment and consumer goods will take place in the second quarter and continue upward during the rest of the year. Production of auto assemblies will remain relatively strong during this year.

In general, KEDI does not expect a recession or any substantail downturn in the economy this year. The second and third quarters of the year will not keep up with the "fast" growth rate expected in the first quarter. They will be essentially flat, and more vigorous growth will take place in the fourth quarter. In other words, growth in the first and fourth quarters will more than counterbalance the lack of zip of the second and third quarters. As was stated earlier, real GNP is projected to expand by 1.6 per cent.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1489.2	1494.0	1509.4	1527.6	1505.0
Index of Industrial Production	1967=100	147.1	151.6	152.0	152.5	154.0	152.5
Unemployment Rate	%	7.2	7.4	7.6	7.5	7.5	7.5
Capacity Utilization Rate	%	78.7	77.0	77.2	78.0	80.9	78.3
Private Housing Starts	mil. units	1.303	1.349	1.416	1.440	1.439	1.411
Car Sales	mil. units	9.1	9.0	8.9	8.9	9.4	9.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1505.0	1532.4	1546.0	1567.8	1586.4	1558.1
Index of Industrial Production	1967=100	152.5	156.1	159.0	162.3	164.9	160.6
Unemployment Rate	%	7.5	7.4	7.4	7.2	7.1	7.3
Capacity Utilization Rate	%	78.3	82.2	83.9	85.5	86.6	84.6
Private Housing Starts	mil. units	1.411	1.329	1.537	1.637	1.580	1.521
Car Sales	mil. units	9.1	9.2	9.5	9.8	9.5	9.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.1	1591.2	1610.9	1630.2	1640.1	1618.1
Index of Industrial Production	1967=100	160.6	166.4	169.6	172.9	175.4	171.1
Unemployment Rate	%	7.3	7.0	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	84.6	85.4	86.4	86.9	87.2	86.5
Private Housing Starts	mil. units	1.521	1.503	1.836	1.906	1.718	1.741
Car Sales	mil. units	9.5	9.3	9.6	9.9	10.3	9.8

* Historical Data

1.20 PRICES

(Table 1.20 on page 13)

The outlook for inflation, as measured by the Consumer Price Index, has been decreased slightly as compared with the forecast made last month. At that time an inflation rate of 12.2 was predicted. The forecast now shows an annual rate of inflation of 12.0 per cent. Although slightly down, the forecast here is still above the Administration estimate of 11.1 per cent. As was stated in the Overview section, the main reason for the slight change has to do with house prices and food prices. The new forecast shows that the average annual increase in the price of a house this year will be in the 6-8 per cent range instead of the estimate calculated last month of 8-10 per cent. Also, food prices were expected to be growing in the 10 per cent range, but the revised forecast here shows the gain to be approximately 9 per cent. Some downward revision in the rate of price gains for beef and pork are the main elements here.

In February, consumer prices went up a seasonally adjusted 1 per cent after gaining by 0.7 per cent in January as compared to the prior month. Perhaps it will cheer the reader to be reminded that it could be worse. Prices in Israel went up 5.5 per cent in the month of February, for example. The surge in the February Consumer Price Index in this country has been largely attributed to the increase of oil prices due to decontrol. The impact of decontrols has been incorporated in the forecast of this Institute for many months. The forecast shows that the price for oil will continue to go up for more than just a few weeks after decontrol. That is, the price has not yet reached an equilibrium.

PRICES

The analysis by KEDI for the long-term shows the following development for some energy prices. (Consider buying wood burning stoves and forests.)

ENERGY PRICE FORECASTS
Base Year 1980=100

Year:	Natural Gas	Electric Power	Fuel Oil
1980	100.-	100.-	100.-
1	114.9	109.5	120.1
2	130.0	120.4	145.6
3	144.8	134.6	175.7
4	170.1	150.3	197.4
5	194.1	168.9	230.5
6	219.6	179.5	261.4
7	246.4	198.4	305.3
8	276.7	219.1	334.1
9	299.4	224.7	378.4
1990	332.6	241.5	399.6

The table here shows that the fastest gains will be in fuel oil prices throughout this decade. The slowest rate of gains will be for electricity prices. Still, it is hardly slow from a consumer view to see that less than 10 years from now, the bill to pay will be almost two and one-half times what it was last year for electricity. It is no comfort to realize that is "low" when compared to the quadrupling that will take place in a fuel oil bill. Still, it indicates that toward the end of this decade, heating homes with electricity will again be the least costly way.

The forecast of the Producer Price Index has also been slightly reduced since the last issue. The price gains for chemicals, electrical machinery, lumber, and construction products will not be changing at the relatively fast pace that had been anticipated earlier.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	272.1	280.9	289.3	276.3
Producer Price Index, NSA	1967=100	269.8	288.9	301.2	309.3	319.1	304.4
Implicit GNP Price Deflator	1972=100	177.4	188.6	193.6	197.0	201.1	195.1
Gross National Product	bil. $	2626.1	2808.0	2892.7	2974.0	3071.9	2936.6
Personal Consump. Expenditures	bil. $	1672.8	1716.1	1821.4	1875.4	1935.7	1837.1
Gross Private Dom. Investment	bil. $	395.3	408.5	424.2	430.4	454.8	429.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.3	297.7	301.2	308.0	317.0	306.0
Producer Price Index, NSA	1967=100	304.4	327.2	335.6	345.6	350.1	339.2
Implicit GNP Price Deflator	1972=100	195.1	205.9	209.7	214.1	217.1	211.7
Gross National Product	bil. $	2936.6	3155.8	3242.4	3356.2	3443.3	3299.4
Personal Consump. Expenditures	bil. $	1837.1	1981.3	2031.0	2108.6	2151.2	2068.5
Gross Private Dom. Investment	bil.$	429.5	465.8	481.3	492.2	514.1	488.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	306.0	325.6	334.3	344.5	341.7	339.0
Producer Price Index, NSA	1967=100	339.2	357.9	367.9	374.3	383.8	371.0
Implicit GNP Price Deflator	1972=100	211.1	221.0	226.4	231.2	235.9	228.6
Gross National Product	bil. $	3299.4	3517.0	3647.6	3769.7	3868.5	3700.7
Personal Consump. Expenditures	bil. $	2068.5	2182.5	2275.8	2362.5	2438.9	2316.2
Gross Private Dom. Investment	bil. $	488.4	535.3	553.7	566.1	578.3	558.4

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

As compared with the last forecast, the unemployment rate calculated for the first quarter of 1981 has been somewhat lowered due to the actual data for February which was a bit lower than what had been estimated here. February unemployment was 7.3 per cent as compared to the 7.4 per cent figure for January and December.

The annual figure for the unemployment rate has not really been affected by the first quarter revision. The annual estimate remains as approximately 7.5 per cent. (It was set at 7.52 last month.) See Table 1.30 on page 15.

Compared with other forecasters, this Institute belongs to the category of the most optimistic. We now expect a slight increase in the unemployment rate in the second and third quarters of this year. (The data for the table are taken from Business Forecasts, 1981 published by the Federal Reserve Bank of Richmond; Richmond, Virginia, February, 1981.) As soon as the actual figures are available early next year, you will see this list again to compare forecasts with reality.

Forecast of the Unemployment Rate for 1981

Peter L. Bernstein, Inc.	8.2%	WGN Continental Broadcasting Co.	8.0%
American Statistical Assoc. and Nat. Bureau of Econ. Research	7.6%	Bankers Trust Company	7.8%
AMERITRUST	7.9%	Standard & Poor's Corp.	7.8%
Georgia State University	7.9%	Data Resources, Inc.	7.9%
First National Bank of Chicago	8.3%	Morgan Guaranty Trust Co.	8.0%
Chemical Bank	7.6%	Chase Econometrics	8.1%
UCLA	7.8%	Equitable Life Assurance Co.	8.1%
		Philadelphia National Bank	8.2%

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.7	98.9	99.7	100.4	99.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.4	95.6	96.3	97.0	96.1
Unemployment Rate	%	7.19	7.38	7.56	7.51	7.48	7.48

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.4	101.1	101.8	102.8	103.7	102.3
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.1	97.7	98.4	99.5	100.4	99.0
Unemployment Rate	%	7.48	7.37	7.35	7.17	7.12	7.25

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.3	104.8	106.0	106.6	107.5	106.2
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.5	102.6	103.3	104.1	102.9
Unemployment Rate	%	7.25	7.04	6.92	6.75	6.61	6.83

* Historical Data

EMPLOYMENT AND LABOR

This Institute maintains the prediction that unemployment will be highest for the following areas this year: construction, housing, textile, apparel, furniture, household appliances, motor vehicles, and the lumber industry. Employment will show gradual improvement in rubber, electrical machinery, food, paper and products, and steel. High employment will exist in chemicals, plastics, petroleum products, ordnance, nonelectrical machinery, and aerospace.

1.40 HOUSING

(Table 1.40 on page 18)

Seasonally adjusted housing starts went skidding down by 24.6 per cent in February to an annual rate of 1.218 million units from the January level of 1.615 million. The February pace was 4.3 per cent lower than the year-earlier figure. This lowered rate of activity (just two years ago starts were at an annual rate of 2 million) has resulted in an estimate of about three-fourths of a million construction workers being without work in their field. Housing permits also went down for the third consecutive month to an annual adjusted rate of 1.143 million. Single-family housing starts dropped by 21.5 per cent to a rate of 779,000 units. That was the fifth month in a row of declines. Even starts of multifamily units were down. They had been going up for the previous five months.

HOUSING

Sales of new single-family houses were down in February after showing a slight gain in January. The median price of such a home sold was $67,100. (On the positive side that was $300 less than the average price in January.) Still, there is a large inventory of homes for sale. Savings and loan associations were asking for 80 per cent down and basic interest of 15.4 per cent.

People still want homes--it is increasingly hard to afford them. The President is not alone in seeing tight credit as necessary to fight inflation. The state of the housing industry is one of the casualties. His proposals for cuts in federally subsidized housing for low income families help the budget of the nation but not that of potential home owners looking for some help in buying.

Housing starts had been projected by KEDI to drop but the actual data was a bit lower for February than had been calculated here. Hence, the forecast for such starts for 1981 has been lowered. In the February issue, the total used was 1.576. That is revised in this issue to 1.411 million units. The forecast data in Table 1.40 also shows a lowering for single-family units and mobile home shipments.

KEDI expects the data for March, April, and May to be approximately at the February level. Some very slight improvement will take place in the second half of the year. Still, there will be no substantial improvement before 1982.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.852	.907	.917	.903	.894
Multifamily Housing Starts	mil.	.473	.497	.511	.523	.536	.517
Mobile Home Shipments	mil.	.222	.245	.279	.280	.265	.267
Housing Permits Issued	mil.	1.117	.987	1.014	.986	1.124	1.028
Construction Costs-Commerc.	1972=100	198.5	208.9	216.2	220.3	229.5	218.7
Construction Costs-Resident.	1972=100	198.6	210.1	217.0	220.1	229.9	219.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.894	.840	.989	1.065	1.012	.977
Multifamily Housing Starts	mil.	.517	.489	.548	.572	.568	.544
Mobile Homes Shipments	mil.	.267	.273	.295	.316	.328	.303
Housing Permits Issued	mil.	1.028	1.215	1.487	1.506	1.485	1.423
Construction Costs-Commerc.	1972=100	218.7	237.0	250.1	258.8	265.6	252.9
Construction Costs-Resident.	1972=100	219.3	235.9	248.7	256.9	264.7	251.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.977	.901	1.145	1.201	1.087	1.084
Multifamily Housing Starts	mil.	.544	.602	.691	.705	.631	.657
Mobile Homes Shipments	mil.	.303	.324	.331	.364	.317	.334
Housing Permits Issued	mil.	1.423	1.266	1.594	1.714	1.605	1.545
Construction Costs-Commerc.	1972=100	252.9	274.8	284.3	292.2	304.6	289.0
Construction Costs-Resident.	1972=100	251.6	271.9	282.1	290.3	301.5	286.5

* Historical Data

HOUSING

The view of Mr. Sumichrast of the National Association of Home Builders is shared here. He also sees the next three months as being like February and very slow improvement taking place in the latter part of this year. However, the view of forecasters that show a drop in starts to the level of one million is not shared here. That is too gloomy and unrealistic.

1.50 BUDGETS

(Table 1.50 on page 20)

In this forecast, the Federal Budget reductions for fiscal 1982 have been increased. In last month's issue, $41.4 billion in budget cutting for fiscal 1982 was assumed. President Reagan asked for $7.2 billion more to be eliminated. Calculations here show that the Administration's request for an additional $7 billion in budget cuts will result in roughly a $3 billion reduction in the deficit in 1982 and $2-3 billion in 1983. Incorporating the additional budget cuts would result in the following deficits calculated by KEDI

FEDERAL BUDGET DEFICITS
billions of $, calendar year

1980	$61 billion (actual)
1982	$54 billion
1983	$36 billion
1984	$32 billion
1985	$24 billion

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	282.5	291.5	296.4	302.8	293.3
Corporate Profit Tax Accruals	bil. $	70.1	75.4	80.3	84.2	92.7	83.2
Surplus./Deficit	bil. $	-61.2	-62.1	-57.4	-52.1	-46.3	-54.5
State and Local Governments:							
Income Taxes	bil. $	80.7	86.8	88.9	91.3	94.4	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.0	15.0	15.9	14.5
Surplus./Deficit	bil. $	29.1	28.4	27.7	25.4	24.0	26.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	293.3	313.9	322.6	323.1	343.4	325.8
Corporate Profit Tax Accruals	bil. $	83.2	100.4	106.4	111.9	121.5	110.1
Surplus./Deficit	bil. $	-54.5	-40.4	-35.0	-31.1	-30.6	-34.3
State and Local Governments:							
Income Taxes	bil. $	90.1	95.7	98.1	101.5	103.8	99.8
Corporate Profit Tax Accruals	bil. $	14.5	16.6	17.8	18.3	19.5	18.1
Surplus./Deficit	bil. $	26.4	23.6	21.2	22.0	23.1	22.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	325.8	353.5	365.1	378.4	390.2	371.8
Corporate Profit Tax Accruals	bil. $	110.1	128.7	134.2	140.1	147.2	137.6
Surplus./Deficit	bil. $	-34.3	-31.5	-39.4	-37.8	-34.5	-35.8
State and Local Governments:							
Income Taxes	bil. $	99.8	106.1	108.5	110.4	113.1	109.5
Corporate Profit Tax Accruals	bil. $	18.1	20.4	21.6	22.7	24.0	22.2
Surplus./Deficit	bil. $	22.5	23.4	24.6	25.3	25.6	24.7

* Historical Data

BUDGETS

The forecast data for state and local budgets remains basically unchanged. The slight changes made show a small reduction in the surpluses for state and local budgets for the 1981-85 period.

1.60 INCOME

(Table 1.60 on page 22)

Spendable earnings in February decreased by 1.5 per cent when adjusted for inflation. Such earnings had edged downward by 0.3 per cent in January. Before adjusting for price gains, but after deductions for federal taxes, the typical worker with three dependents had spendable weekly earnings of $213.16 in February.

The projection here for personal disposable income shows that it will keep gaining by an annual average of 11.9 per cent during the 1981-85 period. Overall, that is just slightly faster than the rate of inflation. Adjusted for inflation and computed on a per capita basis, calculations show that real per capita income will be just barely higher in 1985 than it was in 1979.

The Commerce Department released data in late March that showed after tax corporate profits went up by 3.1 per cent or $5 billion to a seasonally adjusted annual rate of $164.1 billion in the last quarter of 1980.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: March 1981

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2321.8	2396.1	2449.3	2529.1	2424.1
Personal Dispos. Income	bil. $	1821.7	1957.2	2020.7	2066.6	2137.9	2045.6
Compensation of Employees	bil. $	1596.5	1703.4	1756.8	1793.4	1853.0	1776.7
Corp. Profits After Tax	bil. $	163.1	169.3	174.1	181.6	189.3	178.6
Personal Saving	bil. $	101.3	103.1	101.7	114.5	118.6	109.5
Average Weekly Earnings	$	297.4	310.5	312.7	314.7	319.6	314.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2424.1	2601.2	2663.2	2768.3	2836.8	2717.4
Personal Dispos. Income	bil. $	2045.6	2196.6	2247.5	2328.7	2394.5	2294.3
Compensation of Employees	bil. $	1776.7	1897.5	1937.8	2017.6	2054.0	1977.2
Corp. Profits After Tax	bil. $	178.6	191.5	198.7	203.4	208.8	200.6
Personal Saving	bil. $	109.5	108.4	110.9	112.5	115.9	111.9
Average Weekly Earnings	$	314.4	322.4	324.8	332.0	336.9	329.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2717.4	2896.9	3110.1	3123.7	3201.5	3055.8
Personal Dispos. Income	bil. $	2294.3	2431.3	2542.5	2639.9	2703.2	2579.2
Compensation of Employees	bil. $	1977.2	2073.4	2157.5	2243.8	2289.7	2191.8
Corp. Profits After Tax	bil. $	200.6	216.7	218.8	223.2	229.6	222.1
Personal Saving	bil. $	111.9	118.7	121.4	125.6	127.3	123.3
Average Weekly Earnings	$	329.0	339.8	342.9	346.8	349.0	344.6

* Historical Data

INCOME

For that year as a whole, however, after tax profits were down by 2.8 per cent from the 1979 level. Adjusted for both inflation and taxes, profits in the last quarter of 1980 were 1.6 per cent lower than the prior quarter and 4.2 per cent below the fourth quarter pace of 1979.

The forecast here for corporate profits has been slightly adjusted for the current year mainly due to downward revisions for the auto industry, housing, and construction and upwards revisions in steel, plastics, chemicals, retail, and wholesale industries. The estimate for corporate profits for the years 1982-85 has been revised upward by KEDI.

1.70 MONEY AND CREDIT
(Table 1.70 on page 25)

The forecast concerning monetary and credit aggregates remains basically unchanged when compared with the previous issue. In March, there were some indications that the Federal Reserve would be relaxing the tight money policy just a bit for a short time. That is in line with the Assumption No. 3 that has been maintained here for quite some time.

> 3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

MONEY AND CREDIT

Any slight let-up in the tight policy in the first part of this year will be somewhat offset by renewed restraint in the third and fourth quarters of this year.

For the 1981-82 period, the markets for money will remain under constant pressure created by the Government need to cover the large deficits projected for those years. That pressure will not allow any relaxing of the monetary and credit restraints, nor any substantial declines in the interest rates. For the rest of this year, moderate, gradual gains in monetary aggregates are predicted by KEDI. The same holds true for the credit aggregates; commercial and industrial loans, and consumer credit.

Commercial and industrial loans will show a gain of 2.3 per cent in 1981 over the previous year and a 7.0 per cent increase in 1982. Consumer credit will also go up by 4.9 per cent in 1981 and will gain at a more rapid pace in 1982 when such credit will go up by 7.0 per cent over the prior year.

Mortgage borrowing will remain at a low level. The increase will be just 1.8 per cent in 1981 and the calculation for 1982 shows a 3.8 per cent gain over 1981.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	383.6	387.2	394.1	406.0	392.7
Time Deposits, Adjusted, M2	bil. $	1596.2	1669.2	1677.0	1714.3	1734.1	1698.7
Consumer Instal. Credit	bil. $	313.4	315.6	319.2	325.1	329.0	329.0
Commerc. and Industr. Loans at Banks	bil. $	325.3	320.7	324.9	328.5	332.9	332.9
Negotiable Cert. of Deposits	bil. $	129.2	132.1	132.1	134.5	137.2	140.5
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.3	508.4	512.1	512.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	392.7	411.7	416.0	422.0	429.3	419.8
Time Deposits, Adjusted, M2	bil. $	1698.7	1739.8	1769.1	1801.3	1837.9	1787.0
Consumer Instal. Credit	bil. $	329.0	335.8	339.6	347.8	355.0	355.0
Commerc. and Industr. Loans at Banks	bil. $	332.9	337.5	341.6	350.5	358.7	358.7
Negotiable Cert. of Deposits	bil. $	140.5	145.2	148.7	151.0	153.8	153.8
Mortgages at S & L Assns.	bil. $	512.1	515.7	520.4	525.6	531.4	531.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	419.8	434.0	441.5	453.4	462.1	447.8
Time Deposits, Adjusted, M2	bil. $	1787.0	1860.8	1922.5	1968.9	2019.3	1942.9
Consumer Instal. Credit	bil. $	355.0	362.9	370.3	380.8	387.1	387.1
Commerc. and Industr. Loans at Banks	bil. $	357.8	363.4	370.6	377.2	383.6	383.6
Negotiable Cert. of Deposits	bil. $	153.8	154.1	155.9	159.3	164.1	164.1
Mortgages at S & L Assns.	bil. $	531.4	535.2	540.7	546.0	551.3	551.3

* Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 28)

Interest rates are definitely down from their record highs of December, 1980, and January, 1981. KEDI's projection is that the prime rate, presently in the 17 per cent range, will stabilize around that level for several months. In the autumn, a temporary increase is anticipated followed by declines to the 15 per cent level by the end of this year.

KEDI does not share the opinion of some bankers who expect a sharp rate decline. No 15 per cent rate is seen here as early as April or May, for example.

The view of Mr. Kaufman of Salomon Brothers that the prime rate will go above the record of 21½ per cent before the end of the year is certainly one not seen as possible at this Institute. Toward the other end of the very varied views on interest rates is the chief economist, Albert H. Cox Jr., at Merrill Lynch. He predicts a prime rate in the 12 per cent range by the end of 1982.

Then there is the outlook of Mr. McKinney Jr. of Irving Trust Co. He sees the prime rate as below 10 per cent by <u>this</u> year end! That just will not be. Wishing will not make it so. Government deficits and goals of fighting inflation their way do not fit with such reductions. To repeat the calculations of KEDI: a prime rate in the 15 per cent level is seen at the end of this year.

INTEREST RATES, YIELDS, AND SECURITIES PRICES

The forecast for the long-term interest rates remains unchanged here. Mortgage rates will keep moving downwards but at a very slow pace this year and next as is shown in Table 1.80. In that period, there will be no substantial declines in yields on U.S. or state and local obligations and long-term private bonds.

The performance of the stock market will be strong throughout this year and next without any dramatic ups or downs. As measured by the Dow Jones Industrial Average, the stock market will be in the 900-1000 range in these years.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	12.52	11.57	11.98	12.51
Prime Rate	%	15.10	19.06	17.18	16.64	15.91	17.20
Mortgage Rate, New Homes	%	12.96	14.46	14.30	13.97	13.65	14.10
Aaa Bonds Rate	%	11.94	12.65	12.31	12.46	11.88	12.33
Long Term Govt. Bonds Yield	%	11.39	12.42	12.01	11.46	11.24	11.78
Standard & Poor's 500 Average	1941-43 =10	118.71	133.24	130.47	128.65	131.54	230.98

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.51	11.86	11.27	10.84	10.56	11.13
Prime Rate	%	17.20	15.65	15.65	15.02	14.76	15.23
Mortgage Rate, New Homes	%	14.10	13.47	13.21	13.51	13.01	13.21
Aaa Bonds Rate	%	12.33	11.24	10.92	10.68	10.35	10.80
Long Term Govt. Bonds Yield	%	11.78	11.02	10.48	10.26	10.28	10.54
Standard & Poor's 500 Average	1941-43 =10	130.98	130.45	133.16	133.16	130.27	132.45

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.13	10.43	10.29	10.46	10.73	10.48
Prime Rate	%	15.23	14.62	14.43	13.95	13.67	14.17
Mortgage Rate, New Homes	%	13.21	12.86	12.75	12.80	12.95	12.84
Aaa Bonds Rate	%	10.80	10.28	10.30	10.56	10.96	10.53
Long Term Govt. Bonds Yield	%	10.54	10.14	10.46	10.28	10.76	10.41
Standard & Poor's 500 Average	1941-43 =10	132.45	134.56	136.48	138.14	137.52	136.68

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Consumer Price Index for the year 1980 has been selected for comparison. Actual figures for the year 1980 are in the Survey of Current Business (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), blue pages, February 1981 issue; and in Weekly Business Statistics, Supplement to the Survey of Current Business. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
CONSUMER PRICE INDEX
(Year 1980, 1967=100)

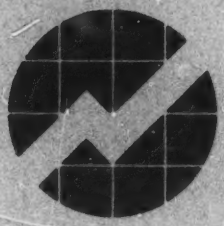
Actual: 246.7

Forecaster	Page of Business Forecasts 1980	Forecast	% of Accuracy
United California Bank	7	237.3	-3.2
Conference Board	7	240.0	-2.7
Harris Trust and Saving Bank	9	242.7	-1.6
Cities Services Company	9	243.3	-1.4
Gulf Oil Corporation	11	241.1	-2.7
Metropolitan Life	11	238.5	-2.3
National Securities Research Corp.	13	237.0	-3.9
U.S. Trust Company of New York	13	241.7	-2.0
J.A. Livingston, Philadelphia	19	241.4	-2.1
Manufacturers Hanover Trust	20	237.3	-3.2
Chemical Bank	21	240.9	-2.4
The First National Bank of Chicago	22	241.7	-2.0
Georgia State University	24	243.6	-1.3
Bankers Trust Company	28	243.0	-1.5
Goldman Sachs	29	243.8	-1.2
The Fidelity Bank	30	243.6	-1.3
KEDI	31	242.8	-1.6
Morgan Guaranty	35	243.7	-1.2

3/6/81

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INSTITUTE

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KEDI ECONOMIC SURVEY

April 30, 1981

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claims based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW 1

The Reagan plan is still viewed as being too optimistic. The middle two quarters of this year are seen as lackluster and the last quarter as showing definite improvement. The projection for real growth has been increased here from 1.6 to 2.6 per cent for this year as compared to 1980.

1.02 ASSUMPTIONS 3

There is a change in the first assumption. Oil prices will not be going up as fast as was calculated in prior issues. The weighted price of oil for 1982, for example, is now at $42 a barrel instead of a $46 projection.

1.1 DETAILED FORECASTS

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Surprise! In the first three months of this year the real growth amounted to 6.5 per cent. KEDI still views the rest of the year in the same light as before. The economic news lending validity to that view include the rather weak performance of retail sales, the situation of the housing industry, orders for durable goods, U.S. trade gap, and leading indicators.

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The projection for the inflation rate has been revised downward to 11.8 per cent for 1981 Developments outside this country in oil prices are a central factor.

1.30 EMPLOYMENT AND LABOR 15

The forecast here is not altered. The unemployment rate wil decline over the next few years at a very gradual rate.

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1.40 HOUSING 17

Housing starts will be about 11 per cent lower this year than last. (Last year was depressing by itself.) Sales of new houses just managed a gain in March over February. Housing permits will not keep on declining.

1.50 GOVERNMENT BUDGETS 19

In the morass of politics, power plays, and projections, one feels stumped as to knowing what the end result will be. Assumptions are made here about the budget in Washington. Deficits will be higher than what Reagan publicly announces.

1.60 INCOME 22

The forecast here remains the same. Personal income and inflation will be practically tied in advances this year.

1.70 MONEY AND CREDIT 25

The tight money policy will predominate during the first half of this decade. During the current year, there will be some relaxing in the third quarter and renewed tightening in the last three months.

1.80 INTEREST TATES, YIELDS, AND SECURITIES PRICES 27

The prime rate was moved up by several large banks to 18 per cent. KEDI does not see the rate as setting any new highs nor is a rate as "low" as 15 per cent seen for 1981.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 30

In this issue, forecasts of housing starts of 1 for the first quarter 1981 have been selected for comparison.

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1.01 OVERVIEW

In the continuing story of the Reagan plan, KEDI maintains its evaluation: The plan is feasible, but it is too optimistic. For instance, support of this view can be found in the recent action of the Senate Budget Committee which adopted an estimate of higher interest rates than the Administration. The White House has been using a Treasury bills rate of 8.9 per cent for 1982. The Senate group set that figure at 12 per cent viewing it as more in line with the other assumptions that were being made. The Senate deserves to be praised (not buried) for this example of realism that surfaced.

As was stated in the last issue KEDI expects that this year, there will be some growth. The second and third quarters will not have any zip to speak of, but the fourth quarter will show more definite improvement.

The forecast for growth has been revised upward this month for 1981. In the March issue, the estimate for growth in real GNP was set at 1.6 per cent by KEDI. Due to the larger than expected growth in the first months of this year, that estimate has been moved up to 2.6 per cent. (An upward revision for a positive sign is certainly made with a bit of cheer and less worry, for being slightly off the mark, than is true when any change is upward for unemployment or inflation.) Both the tax incentives for businesses and the tax cuts for consumers will bolster consumer outlays and aid in the recovery of business capital spending in the latter part of this year. Interest

rates will remain on a high level during the year. Inflation will persist in the 10 per cent range. The growth that is expected in the last quarter of this year will more than make up for the wishy-washy nature of the two middle quarters. The end of the year gain will continue into 1982.

KEDI does not agree with certain aspects of the outlook for 1981 of some economists. For instance, Chase Econometrics sees the jobless rate moving up to 8 per cent and output going down at an annual rate of 2 per cent in the April-June period. Merrill Lynch sees such output going down at a yearly rate of 3.5 per cent and the prime rate moving down to the 12 per cent range. Again, the view is not shared here of the average of the forecasters covered in Blue Chip Economic Indicators: that average points to an economy decline at an annual rate of 0.4 per cent in those months and short-term rates falling toward 11 per cent in the last quarter of this year.

The calculations made here are more in line with the way growth is foreseen by the following: Data Resources indicate the April-June months will show growth of 0.7 per cent but Mr. Eckstein of that firm cautioned that there is a chance of a small decline. The University of Michigan Forecasting Service sees that the six months from April to September will provide real growth of 1.4 per cent. In early April, Townsend-Greenspan pointed to the lack of significant growth and the lack of any general weakening. KEDI views the second and third quarters fo this year as showing minimal movement. Frankly, the nature of some of the data leads to this general conclusion about

minimal moves. Like Mr. Eckstein, small growth is expected but a bit of a 2nd quarter or 3rd quarter decline would not be a surprise. It is the fourth quarter that will provide a more vigorous upturn.

Looking ahead to 1982 and comparing the calculations by KEDI with the Senate Budget Committee reflects agreement on unemployment, but KEDI figures for Treasury Bills rate are somewhat higher, and the figure for inflation is over two percentage points higher. The estimate here for growth is lower than that of the Senate.

OUTLOOK FOR 1982

	Senate Budget Comm.	KEDI
Real Growth	4.2%	3.1%
Consumer Price Index	8.3%	10.3%
Unemployment rate	7.2%	7.2%
3 mo. Treasury Bills annual rage	12.0%	13.4%

The KEDI forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 1 and No. 3.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $37 range. In 1982, it is

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MONTH: April 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1518.7	1565.2	1755.8
Index of Industrial Production	1967 =100	147.1	152.6	160.8	189.2
Capacity Utilization	%	78.7	80.1	84.3	87.1
Unemployment Rate	%	7.2	7.5	7.2	6.2
Private Housing Starts	mil. units	1.303	1.396	1.480	1.804
Car Sales	mil. units	9.1	10.0	10.2	11.4
Implicit GNP Price Deflator	1972 =100	177.4	194.1	210.6	267.2
Consumer Price Index	1967 =100	246.7	275.8	304.1	430.6
Producer Price Index	1967 =100	269.8	303.3	334.7	465.7
Federal Deficit	bil. $	-61.2	-51.5	-34.8	-24.1
Personal Income	bil. $	2160.2	2409.5	2648.8	3814.5
Prime Rate	%	15.10	17.81	16.16	12.04
Mortgage Rate	%	12.96	14.17	13.54	11.13
Currency plus Demand Deposits	bil. $	377.4	393.1	420.2	514.5
Commercial and Industrial Loans	bil. $	325.3	333.4	359.8	430.7

ASSUMPTIONS

expected the price will go up to $42, in 1983, to $46 per barrel. In 1984, to $52 per barrel, and in 1985, to $60 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP;

	1981-1985
West Germany	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

ASSUMPTIONS

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH

(Table 1.10 on page 10)

Pleasant news, indeed: First quarter real growth seasonally adjusted, jumped up by 6.5 per cent during the first quarter of this year as compared to the previous quarter. For the fourth quarter of 1980 this figure was 3.8 per cent. Overall in 1980 real GNP had edged downward by 0.2 per cent. The reader likely saw that 6.5 per cent news in April's third week and viewed it with the same favorable reaction that was shared here. Not too surprisingly, there were those in Washington that took a dim view of the first quarter performance. There is the argument that more economic strength could endanger the tax-cut package. Being realistic, such danger is not real. There will be growth this year but the middle two quarters will not come anywhere near matching the first quarter performance.

That 6.5 per cent growth in the first three months of 1981 was a surprise. It caught most of us with our elbows in our calculators; so-to-speak. Still, KEDI was among the most optimistic forecasters. The estimate here made in March of first quarter performance was 2.6 per cent. Many economists had been predicting growth in just

the 1.0 or 1.5 per cent range. The average of some 40 forecasters was 2.1 per cent. In the first quarter, personal income increased a bit as expected, but the way it was used had not been anticipated here (or by any other economist known here). That is, spending was higher and savings declined. The higher personal consumption spending boosted GNP. Quarterly forecasts are more susceptible to variation than yearly ones which allow for any monthly or quarterly aberrations to be evened out.

KEDI maintains its prediction of slow growth with a less lively showing in the current quarter and in the third quarter. The gains expected in the fourth quarter will be the beginning of a more sustained growth period. The forecast is supported by recent developments that include six other aspects in addition to the 6.5 per cent growth already discussed.

1. The most recent survey released in early April of purchasing managers showed that both production and new orders were up for the first time since last November. Close to half of the agents said they were optimistic about the next 12 months.

2. The month-to-month change in adjusted retail sales was negligible. According to preliminary estimates by the Commerce Department, they were just 0.1 per cent higher in March than in February. (The gain in that month had been 1.6 per cent.) There have now been 10 months of increases in a row, but the March figure was the lowest of the lot. Total retail sales were up by 12 per cent over the year-earlier figure.

REAL GROWTH

Durable goods sales gained about twice as much as nondurables. Auto sales did contribute to this and such March sales are not expected to continue. However, indications are that consumer purchases will remain strong in the second quarter.

3. Durable orders went up by an adjusted 1.3 per cent in March. The February change was a bit lower, 1.1 per cent, and such orders had declined 1.6 per cent in January. The March increase was not a solid sign of strength indicating more to come. Most major categories did report some declines. The overall total was given a boost by aircraft orders. (One order for a few biggy aircraft requires big bucks.) If transportation equipment is eliminated from the total, new orders actually declined by 1.7 per cent in March.

However, the projection for DEFENSE GOODS ORDERS shows that strong gains will occur in the rest of the year. Nondefense orders will also remain firm. Nondefense orders went up by 14.4 per cent in March after dropping 16 per cent in the previous month.

4. Industrial production showed a slight change in March. It edged above February by 0.4 per cent, seasonally adjusted. Again, the data include a fairly hefty rise in auto assemblies. That is not going to continue to go up at such a rate: 12 per cent in March.

5. Leading economic indicators had been moving downward for three months, but in March there was a change. An increase of 1.4 per cent was shown. Even though the rise in crude oil prices distorted the

REAL GROWTH

March figure, if those are eliminated from the index, there still would be a bit of gain: 0.2 per cent.

6. For a change, the trade gap of this nation actually contracted in March. The deficit reached roughly $450 million. That was the lowest it had been in over five years. Oil imports and related products were down by almost 19 per cent from the prior month. Exports were up by 8.5 per cent. Especially strong were exports of agricultural products, aircraft equipment, and power-generating machinery.

7. Housing starts for March did show some gain from the prior month. However, there was a sharp drop at that time so any comparison needs to be cautioned. The KEDI projection shows that housing starts will remain at a low level during 1981, but NO SIGNIFICANT DECLINE is foreseen here.

The projection here points to the expected growth in machinery, chemicals, plastics, aerospace, food, iron and steel, and related industries will OVERLAP the low performance anticipated in automobile, housing, and the construction industry in general.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1509.2	1513.3	1518.7	1533.4	1518.7
Index of Industrial Production	1967=100	147.1	151.5	152.0	152.6	154.3	152.6
Unemployment Rate	%	7.2	7.4	7.5	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	78.6	79.6	80.7	81.6	80.1
Private Housing Starts	mil. units	1.303	1.363	1.418	1.427	1.378	1.396
Car Sales	mil. units	9.1	10.2	9.9	9.6	10.3	10.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1518.7	1540.8	1556.2	1574.4	1589.3	1565.2
Index of Industrial Production	1967=100	152.6	156.1	158.9	162.6	165.4	160.8
Unemployment Rate	%	7.5	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	80.1	82.3	84.0	84.9	86.1	84.3
Private Housing Starts	mil. units	1.396	1.308	1.512	1.575	1.526	1.480
Car Sales	mil. units	10.0	10.1	9.8	10.2	10.8	10.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1565.2	1606.4	1623.1	1642.1	1660.4	1633.0
Index of Industrial Production	1967=100	160.8	167.2	170.1	173.8	176.3	171.9
Unemployment Rate	%	7.2	7.0	6.9	6.7	6.6	6.8
Capacity Utilization Rate	%	84.3	86.9	87.0	88.0	88.7	87.7
Private Housing Starts	mil. units	1.480	1.508	1.855	1.966	1.764	1.773
Car Sales	mil. units	10.2	10.1	9.9	10.4	10.9	10.4

* Historical Data

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1.20 PRICES
(Table 1.20 on page 14)

As compared with the March forecast, the rate of inflation has been revised downward for 1981. Last month calculations showed that rate for the year would be 12 per cent. That projection is now set at 11.8 as measured by the Consumer Price Index. The main reasons for the change center on gasoline and house prices.

First. The outlook here for the 1981-85 period for gasoline prices has been revised due to the following news from abroad. Saudi Arabia reduced the oil prices on some of its exports by $2 a barrel to $34. This is viewed as the price that Saudi Arabia hopes will become the unified price of the OPEC Nations.

2. Mexico and Ecuador reduced contract prices by up to $2.50 a barrel. This has been one effect of the glut that has been brought about by somewhat sluggish economic growth in the industrialized nations and by Americans being able to accomplish more conserving of oil than had been expected.

3. In the U.S., refiners lowered prices by $1 a barrel for certain grades of crude oil from the Rocky Mountains. Retail gasoline prices actually moved down a bit, 0.6 cents, in the first part of April.

The outlook at this Institute is now as follows. The prices for gasoline will be stable for the rest of the year. The prices for imported oil will resume their upwards trend in 1982 and in the

following year. The reader is referred to the Assumption No. 1 on international oil prices.

Second. The forecast for the average price of a house has been revised downward. The median price of a new home had declined by 3.1 per cent between January and February. In March, the price went up 2 per cent to $66,700. It had been anticipated here that the average price of a house would gain by 9 per cent during this year. The new figure is 7 per cent.

The remaining items in the Consumer Price Index are basically unchanged. As to food, it is anticipated here that prices of beef and pork will begin to go up again in the second half of this year. Pork producers were cutting back on their plans for breeding in March. The reduction in supply will contribute to price gains. It was reported that cattlemen were losing around $100 on each animal sold. The price of beef will help improve that situation in the rest of 1981.

The prices of wheat, corn, and soybeans will resume the upward trend in the latter half of this year. Overall, the forecast for food items in the Consumer Price Index remains the same: a 10 per cent rise over 1980.

Inflation slowed to an annual rate of 7.5 per cent in March. That was the smallest gain since last summer. The slowing was attributed

PRICES

mainly to moderating energy prices. Energy costs are expected to settle down in the coming months. The gains in the first part of the year reflected the higher costs of imported oil and the decontrol adjustments. First quarter inflation was 11.2 per cent above the average of the same period last year.

In March, housing costs were down for the third month. The price of houses decline by 0.7 per cent. However, mortgage interest rates went up almost 2 per cent. Overall, housing costs went up by 0.5 per cent.

The forecast data show there is little indication for a drop in the rate of inflation in the foreseeable future. KEDI agrees with the majority of economists that see the underlying rate of inflation persisting in the 10 per cent range this year. A basic reason here is the projection of labor costs in manufacturing which are expected to go up 10 per cent during this year as compared to 1980. That leaves no room for any substantial decline in the general rate of inflation.

There is another reason why the underlying rate won't change. The proposed tax cuts and military spending will more than offset the restraining influence of any reductions in nondefense federal spending and in spending changes by state and local governments. Again, inflation is calculated as amounting to 11.8 per cent this year.

KENT ECONOMIC AND
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Month: April 1981

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	271.8	279.9	288.6	275.8
Producer Price Index, NSA	1967=100	269.8	287.3	300.1	308.4	317.4	303.3
Implicit GNP Price Deflator	1972=100	177.4	187.3	192.7	196.3	200.2	194.1
Gross National Product	bil. $	2626.1	2826.8	2916.0	2981.1	3069.7	2948.4
Personal Consump Expenditures	bil. $	1672.8	1805.4	1851.2	1889.4	1940.1	1871.5
Gross Private Dom. Investment	bil. $	395.3	423.1	442.2	449.4	465.7	445.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	275.8	296.5	298.9	306.0	314.9	304.1
Producer Price Index, NSA	1967=100	303.3	324.1	329.8	338.9	346.0	334.7
Implicit GNP Price Deflator	1972=100	194.1	204.9	208.7	212.9	216.0	210.6
Gross National Product	bil. $	2948.4	3157.1	3247.7	3351.8	3432.8	3297.3
Personal Consumpt Expenditures	bil. $	1871.5	1988.9	2036.8	2110.8	2147.1	2070.9
Gross Private Dom. Investment	bil.$	445.1	483.8	500.3	511.2	531.1	506.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	304.1	323.1	330.7	339.2	347.0	335.0
Producer Price Index, NSA	1967=100	334.7	351.1	360.1	369.0	376.5	364.2
Implicit GNP Price Deflator	1972=100	210.6	219.9	225.2	230.0	234.7	227.5
Gross National Product	bil. $	3297.3	3532.5	3655.1	3777.2	3897.1	3715.5
Personal Consump Expenditures	bil. $	2070.9	2204.3	2289.8	2381.9	2473.4	2337.4
Gross Private Dom. Investment	bil. $	506.6	553.9	572.7	584.9	595.3	576.7

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 16)

The forecast for employment and unemployment remains unchanged. KEDI projects the unemployment rate for 1981 at 7.5 per cent. It will continue to gradually decline in the following year. The unemployment rate is calculated at 7.2 per cent for 1982, 6.8 per cent for 1983, and 6.9 per cent for 1984. See Table 1.40 on page 16.

Total employment in March went up by 0.5 per cent to a seasonally adjusted 98.4 million. The number unemployed gained just 0.1 per cent or 10,000 to 7.8 million. The average workweek for nonfarm workers was at 35.4 hours in March and overtime was at 2.9 hours.

The forecast of the average workweek indicated changes will be minor in the 1981-82 years. Gradual gains are predicted.

AVERAGE QUARTERLY WORKWEEK AND OVERTIME OF NONFARM PRODUCTION WORKERS

		Workweek Hours	Overtime			Workweek Hours	Overtime
1981:	1	35.4	2.9	1982:	1	35.8	3.2
	2	35.5	3.0		2	36.0	3.3
	3	35.6	3.0		3	36.2	3.3
	4	35.8	3.1		4	36.6	3.3

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MONTH: April 1981

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.5	98.0	98.2	99.1	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	94.9	95.7	96.4	95.4
Unemployment Rate	%	7.19	7.34	7.51	7.48	7.41	7.45

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.8	100.4	101.0	102.3	102.9	101.7
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	97.0	97.6	99.0	99.6	98.2
Unemployment Rate	%	7.45	7.38	7.32	7.10	7.09	7.22

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.7	104.1	105.2	105.8	106.7	105.5
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.2	100.8	101.8	102.5	103.3	102.1
Unemployment Rate	%	7.22	7.01	6.89	6.70	6.57	6.79

* Historical Data

1.40 HOUSING
(Table 1.40 on page 18)

The forecast here remains essentially unchanged. Housing starts will total 1.396 million units this year. That will be 11 per cent below the level of last year.

KEDI is not as gloomy about this area as the president of the National Association of Home Builders, Mr. H. Smith. Citing interest rates of 15 and 16 per cent, he indicated starts could fall under one million units at an annual rate this spring.

Sales of new houses in March did increase--not much, but a gain was recorded. One-family house sales were up 0.6 per cent in March to an adjusted annual rate of 511,000 from the February level which was 3.2 per cent below the adjusted level of January. March sales were 8.5 per cent above the year earlier total. House sales will remain at about the March level throughout the year with no further drops. Still, the March rate was 37 per cent below the peak rate slightly in excess of 4 million reached in November of 1978.

Housing permits declined slightly in March. They were down 3.2 per cent from the prior month. The decline between January and February was 5.1 per cent. KEDI does not foresee any more substantial drops this year.

The long-range forecast by KEDI shows that housing activity will peak in the 1983-84 and the 1987-88 years. The forecast of housing starts

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.892	.896	.871	.878
Multifamily Housing Starts	mil.	.473	.511	.526	.531	.507	.518
Mobile Home Shipments	mil.	.222	.248	.281	.276	.260	.266
Housing Permits Issued	mil.	1.117	1.167	1.028	.975	1.086	1.064
Construction Costs-Commerc.	1972=100	198.5	208.7	215.9	219.4	228.6	218.1
Construction Costs-Resident.	1972=100	198.6	209.5	216.4	219.1	228.2	218.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.867	.832	.980	1.006	.984	.950
Multifamily Housing Starts	mil.	.518	.467	.532	.569	.541	.530
Mobile Homes Shipments	mil.	.266	.270	.289	.305	.320	.296
Housing Permits Issued	mil.	1.064	1.104	1.405	1.487	1.803	1.350
Construction Costs-Commerc.	1972=100	218.1	236.1	248.7	256.2	261.4	250.6
Construction Costs-Resident.	1972=100	218.3	233.2	245.1	252.1	259.1	247.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.950	.912	1.158	1.247	1.106	1.106
Multifamily Housing Starts	mil.	.520	.596	.697	.719	.658	.668
Mobile Homes Shipments	mil.	.296	.330	.341	.370	.328	.342
Housing Permits Issued	mil.	1.350	1.365	1.607	1.734	1.706	1.603
Construction Costs-Commerc.	1972=100	250.6	268.9	278.1	286.2	297.1	282.6
Construction Costs-Resident.	1972=100	247.4	263.4	276.0	282.1	289.4	277.7

* Historical Data

HOUSING

for the decade is presented along with the actual data for 1980.

HOUSING STARTS
(Millions of Units)

1980	1.333	1986	1.564
1	1.396	7	1.826
2	1.480	8	2.013
3	1.774	9	1.765
4	1.832	1990	1.703
5	1.608		

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 21)

Frankly, it is difficult to predict the final figures for the Federal budgets at this time. On April 29, it was reported that the Senate Budget Committee passed a resolution that was backed by Reagan. It sets up the Federal targets for three fiscal years:

1982 $48.7 billion

1983 $21.4 billion

1984 balanced budget

The package retains many problems of the original Reagan plan. The Administration has submitted its preliminary projection of the deficit of $44.7 billion for fiscal 1984 and promised to wipe out this deficit by cutting spending enough to make it balance by that time. However,

just what the cuts would be were not detailed.

One of the savings is in the area of Social Security benefits. Over four years, a reduction of $38.4 billion in planned retirement benefits would be achieved by changing the automatic cost-of-living gains. Reagan opposed this Senate approved plan and pressure from the four million retirees getting government pensions is likely to make full approval of the Senate hard to achieve.

There is the matter of defense spending. One revision cuts defense spending by $14 billion plus during the next three fiscal years. It is speculated that the Administration is too conservative in its projection of defense spending plans.

Budget reductions of almost $14 billion are assumed for fiscal 1983 and 1984 by assuming that much can be saved with chipping away at waste, fraud, and abuse in government spending. Such nonspecific cuts are hardly easy to come by even if they are at the 1 per cent level. It looks good on paper.

It is assumed at this Institute that the budget deficit for fiscal 1982 will be $50 billion. The deficit assumed to be approved for fiscal 1983 during that year is $36.2 billion and the red ink approved for fiscal 1984 in 1984 will be $18 billion. What is approved and what actually happens is not the same thing at all--as most people

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: April 1981

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.6	293.1	290.2	296.1	290.8
Corporate Profit Tax Accruals	bil. $	70.1	75.8	81.0	85.1	93.6	83.9
Surplus./Deficit	bil. $	-61.2	-63.8	-59.2	-57.4	-49.6	-51.5
State and Local Governments:							
Income Taxes	bil. $	80.7	88.7	89.5	92.6	92.6	91.6
Corporate Profit Tax Accruals	bil. $	12.2	12.4	14.5	15.7	16.8	15.1
Surplus./Deficit	bil. $	29.1	30.1	29.6	27.3	26.5	28.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	290.8	306.1	314.7	316.2	337.2	318.6
Corporate Profit Tax Accruals	bil. $	83.9	101.2	107.1	113.4	122.7	108.6
Surplus./Deficit	bil. $	-57.5	-43.2	-38.1	-35.6	-32.1	-34.8
State and Local Governments:							
Income Taxes	bil. $	91.6	96.1	99.4	102.8	104.3	100.7
Corporate Profit Tax Accruals	bil. $	15.1	17.3	18.4	19.6	20.3	18.9
Surplus./Deficit	bil. $	28.4	25.4	22.7	23.1	24.5	23.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.6	346.4	359.7	375.6	387.4	367.3
Corporate Profit Tax Accruals	bil. $	108.6	129.6	136.7	141.9	148.0	139.1
Surplus./Deficit	bil. $	-34.8	-33.4	-40.1	-40.7	-37.2	-37.9
State and Local Governments:							
Income Taxes	bil. $	100.7	107.2	110.1	112.5	114.4	111.1
Corporate Profit Tax Accruals	bil. $	18.9	21.5	22.9	23.8	25.2	23.4
Surplus./Deficit	bil. $	23.9	24.8	26.5	27.3	28.4	26.8

* Historical Data

GOVERNMENT BUDGETS

know from struggling with projecting monthly spending and finding that by the end of the month or year more than was anticipated was needed for food or fuel, clothes or cavities, fertilizer or flowers, or the ever-present auto or home repair bill.

For the calendar year, KEDI projects the ACTUAL deficits as being higher all the way than what is anticipated in Washington:

1981	$51.5 billion
1982	$34.8 billion
1983	$37.9 billion
1984	$26.8 billion

Compared with the last projection, the figures for government budgets at the state and local level show no real change.

1.60 INCOME

(Table 1.60 on page 24)

There are no essential changes in the income and components forecast in this issue. Personal income is expected to go up at an annual rate of approximately 11.5 per cent in both this year and next year. In 1983 and 1984, the rise is projected at 13 per cent. If the rates are adjusted for inflation, it is a matter of keeping about even this year. Next year, personal income totals will slightly surpass the inflation rate and will gain by a wider margin in 1983 and 1984.

INCOME

The rates of gain for Personal Disposable Income are as follows: 11.5 per cent in 1981, 12.5 per cent in 1982, 15.1 per cent in 1983, and 16 per cent in 1984. The faster growth of Personal Disposable Income shows the impacts of the 10 per cent income tax cuts in the 1981-83 years.

Actual data released for March shows that personal income moved ahead 0.8 per cent from the previous month, seasonally adjusted annual rates. Personal consumption spending went up by just 0.7 per cent in March.

The Commerce Department came out with a rather sizeable reduction in their earlier estimate of the change in consumption spending between January and February. A little over a month ago, they reported that such spending had gone up by 1.3 per cent. That is revised now to 0.5 per cent.

Those on Social Security can plan on an 11.2 per cent boost in their checks starting in July as that is the percentage change in the Consumer Price Index in the first quarter of this year. By mid-summer, the average retired worker living alone will get his check increased by $37 to $375. Couple's benefits will go up to an average of $640 a month and the maximum will gain to $752.90. At the other end of the scale (and still hardly adequate) the minimum check will go up to $170.30--many women that worked off and on outside their home in low paying jobs are now alone and unable to make ends meet on that amount.

KENT ECONOMIC AND
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Month: April 1981

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2317.7	2389.6	2930.8	2499.9	2409.5
Personal Dispos. Income	bil. $	1821.7	1945.5	2007.0	2048.0	2148.0	2027.2
Compensation of Employees	bil. $	1596.5	1721.8	1742.0	1762.0	1812.3	1759.5
Corp. Profits After Tax	bil. $	163.1	170.5	175.3	182.8	190.5	179.8
Personal Saving	bil. $	101.3	91.3	98.4	102.3	107.6	99.9
Average Weekly Earnings	$	297.4	310.5	312.9	315.0	321.4	314.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2409.5	2573.5	2641.0	2738.3	2786.6	2684.8
Personal Dispos. Income	bil. $	2027.2	2181.3	2226.9	2319.3	2345.1	2268.1
Compensation of Employees	bil. $	1759.5	1860.3	1904.9	1973.5	2006.6	1936.3
Corp. Profits After Tax	bil. $	179.8	199.9	204.6	210.0	217.9	202.8
Personal Saving	bil. $	99.4	116.0	120.3	125.3	120.2	120.5
Average Weekly Earnings	$	314.9	323.5	326.8	334.8	339.1	331.1

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2684.8	2873.8	2988.8	3116.1	3213.2	3047.9
Personal Dispos. Income	bil. $	2268.1	2419.9	2519.0	2628.0	2711.4	2569.8
Compensation of Employees	bil. $	1936.3	2049.9	2127.3	2211.5	2279.4	2167.0
Corp. Profits After Tax	bil. $	202.8	200.0	224.6	230.8	235.8	223.3
Personal Saving	bil. $	120.5	132.5	143.9	147.9	133.2	139.2
Average Weekly Earnings	$	331.1	343.6	345.8	348.7	355.4	348.4

INCOME

The forecast of corporate after-tax profits shows moderate gains in 1981 and considerable increases between 1982 and 1984.

For the current year, the forecast shows that the main profit makers will continue to be oil companies, refineries, aerospace, electrical machinery and electronics, machine tools, food industry, rubber, plastics, railroads, and utilities. The main loosers will be construction, textiles, housing, autos, and airlines. About at the same level with the previous year will be the profit and loss sheets of steel, mining, retail, chemicals, publishing, and banks.

1.70 MONEY AND CREDIT

(Table 1.70 on page 26)

The forecast here remains basically the same as it was last month and has been since the start of this year. KEDI maintains its assumption about tight money policy during the 1981-85 period. It is assumed that in the current quarter, the Federal Reserve will tighten the money supply. In the third quarter of this year, that policy will relax a bit. The projection shows renewed pressures on growth in the money supply in the last quarter of this year. As a result there will be some more tightening of monetary policy.

The forecast data for consumer credit has been slightly increased. Further improvement in the demand for autos is anticipated in the last part of 1981 and throughout 1982

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

Month: April 1981

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	383.6	387.4	394.7	406.8	393.1
Time Deposits, Adjusted, M2	bil. $	1596.2	1669.2	1674.3	1710.2	1729.6	1695.8
Consumer Instal. Credit	bil. $	313.4	315.6	320.1	327.4	334.5	334.6
Commerc. & Industr. Loans at Banks	bil.$	325.3	320.7	324.2	328.7	333.4	333.4
Negotiable Cert. of Deposits	bil. $	129.2	132.1	136.4	139.7	144.8	144.8
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.1	508.3	511.4	511.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	393.1	411.9	416.8	422.4	429.7	420.2
Time Deposits, Adjusted, M2	bil. $	1695.8	1731.4	1767.5	1796.5	1834.5	1782.5
Consumer Instal. Credit	bil. $	334.6	339.2	334.1	349.5	354.1	359.8
Commerc. & Industr. Loans at Banks	bil. $	333.4	337.8	342.5	352.7	359.8	359.8
Negotiable Cert. of Deposits	bil. $	144.8	148.5	152.6	157.1	160.3	532.5
Mortgages at S & L Assns.	bil. $	511.4	514.8	522.1	526.2	532.5	532.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	420.2	435.1	442.4	454.7	464.3	449.1
Time Deposits, Adjusted, M2	bil. $	1782.5	1854.9	1919.6	1967.4	2017.5	1939.9
Consumer Instal. Credit	bil. $	354.1	363.1	372.2	378.1	386.4	386.4
Commerc. & Industr. Loans at Banks	bil. $	359.8	363.0	372.5	379.8	384.5	384.5
Negotiable Cert. of Deposits	bil. $	160.3	164.2	166.5	168.7	169.4	169.4
Mortgages at S & L Assns.	bil. $	153.5	537.4	541.2	548.1	552.6	552.6

MONEY AND CREDIT

The calculations for commercial and industrial loans shows continuous weakness for the rest of the year. There will not be any significant gains in this area any earlier than 1982.

1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 1.80 on page 29)

In the middle of this month the prime fee went up to 17½ per cent in many large banks and at the time of this writing, it was reported that the rate was boosted again to 18 per cent. The April increases in the prime rate induced a variety of reactions from economists in the banking field.

For example, Henry Kaufman of Salomon Brothers was critical of the idea that tight money will reduce inflation. The resulting high interest we are experiencing will go beyond the record 21½ per cent during the next months.

The chief economist of Manufactures Hanover, Irwin Kellner, predicted that through the middle of the year it will likely drop down to around 15 per cent and then start back up. Mr. Edward Palmer of Citibank predicted that interest rates will likely rise further very soon, but by later this spring they will fall to around 15 per cent.

INTEREST RATES, YIELDS AND SECURITIES PRICES

Many economists believe that the surge in interest rates is only temporary and look toward a prime rate of 15 per cent in the middle of the year. KEDI is not as "optimistic." The analysis shows that the economy does have momentum and although the middle quarters will not be particularly strong, there will be some expansion. Given the need for credit, it is not anticipated here that the rate goes downward to 15 per cent this year. Then again, no record-setting rate near or above that 21½ per cent of last December will occur either.

One reason why the interest rates will stay "high" relates to the deficit. It is not likely that the Federal deficit will drop significantly during this year or in 1982. The requirements of the Treasury to finance these large deficits will impose a constant pressure on credit markets. Funds will therefore be diverted from productive use. That will keep the cost of borrowing by banks at a high level.

The forecast by this Institute shows that the interest rates will move downward but at a generally gradual rate. An effective prime rate of 15 per cent is not seen here as likely any earlier than 1983.

The forecast of the stock market shows a strong performance for the rest of this year and through 1983.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	13.71	13.14	12.95	13.44
Prime Rate	%	15.10	19.06	17.73	17.14	17.32	17.81
Mortgage Rate, New Homes	%	12.96	14.46	14.33	14.02	13.86	14.17
Aaa Bonds Rate	%	11.94	13.47	13.07	12.89	13.06	13.12
Long Term Govt. Bonds Yield	%	11.39	12.42	12.16	12.01	11.87	12.11
Standard & Poor's 500 Average	1941-43 =10	118.71	132.83	132.65	130.21	133.47	132.20

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.44	12.87	12.43	11.87	12.01	12.30
Prime Rate	%	17.81	16.94	16.35	15.73	15.62	16.16
Mortgage Rate, New Homes	%	14.17	13.65	13.58	13.60	13.34	13.54
Aaa Bonds Rate	%	13.12	12.67	11.98	11.14	10.87	11.66
Long Term Govt. Bonds Yield	%	12.11	11.54	11.32	11.15	11.04	11.26
Standard & Poor's 500 Average	1941-43 =10	132.30	130.72	133.24	135.71	137.65	134.33

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.30	11.85	11.62	11.18	10.95	11.40
Prime Rate	%	16.16	15.31	14.87	14.21	14.02	14.60
Mortgage Rate, New Homes	%	13.54	13.12	13.86	13.47	13.02	13.37
Aaa Bonds Rate	%	11.66	10.56	10.47	10.89	11.49	10.85
Long Term Govt. Bonds Yield	%	11.29	10.89	10.80	10.53	10.72	10.74
Standard & Poor's 500 Average	1941-43 =10	134.33	136.24	135.11	137.25	139.84	137.11

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Housing Units Starts for the first quarter of 1981 have been selected for comparison. Actual figures for January and February are in Weekly Business Statistics, Supplement to the Survey of Current Business, (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), and for March 1981, in the Wall Street Journal, April 17, 1981. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
HOUSING UNITS STARTS
(First quarter 1981, millions, seas. adj. at annual rates)

Actual: 1363

	Page of Business Forecasts 1981	Forecast	% of Accuracy
American Statistical Association and National Bureau of Economic Research	21	1.350	- 1.0
Ameritrust	22	1.400	+ 2.7
Georgia State University	23	1.181	-13.5
Manufacturers Namover Trust	25	1.414	+ 3.5
Chemical Bank	26	1.280	- 6.7
UCLA	27	1.267	- 7.1
MGN Continental Broadcasting Co.	29	1.000	-26.6
Cyrus J. Lawrence, Inc.	29	1.300	- 4.4
Bankers Trust	30	1.200	-12.0
Standard & Poor's	31	1.350	- 1.0
Data Resources	32	1.198	-12.1
KEDI	33	1.315	- 3.5
Fidelity Bank	34	1.220	-10.5
Morgan Guaranty	35	1.396	+ 2.4
Chase Econometrics	36	1.270	- 7.8
Equitable Life Assurance Society	37	1.250	- 8.3

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KEDI ECONOMIC SURVEY

May 31, 1981

President: Vladimir J. Simunek

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1.01 OVERVIEW 1

The projection of real growth made here was revised upward, but KEDI did not need to change the percentage as much as some other major forecasters. The middle quarters of the year are still viewed fair-to-middling, but the last quarter will show strength.

1.02 ASSUMPTIONS 3

The projected 1981-1985 prices of oil have been reduced. The Federal Income tax cut will be 25 percent instead of 30 percent previously assumed.

1.1 DETAILED FORECASTS

1.10 REAL GROWTH 6

Good news about factory orders, output, steel production, aspects of retail sales, foreign trade, and wheat production is balanced by the depressed state in construction, automobiles, and savings and loan establishments. Using the Index of Industrial Production as a basis for projection shows a wide diversity of performance.

1.20 PRICES 12

The forecast here has been changed with the inflation figures lowered primarily due to the oil negotiations going on among OPEC members and the current oil surplus.

1.30 EMPLOYMENT AND LABOR 15

The forecast here has not really changed. The unemployment rate edged downward a bit in April.

1.40 HOUSING 17

The situation in housing remains rather grim. Due to interest rate hikes, the forecast for the mortgage rate has been revised upwared. KEDI is not as pessimistic about housing starts as some in that industry.

Page

1.50 GOVERNMENT BUDGETS 20

Due to the change in the expectations about the tax cut from 10 to 5 percent this year in terms of a cut and the change from a summer to fall date for its institution, the red-ink projection is lowered for the next four years.

1.60 INCOME 22

Because of the change in the tax cut expected, data for personal disposable income has been reduced slightly. Real growth in per capita disposable income will barely be seen in 1982 and 1983, but will edge up in the following two years.

1.70 MONEY AND CREDIT 24

Forecasts here have been reduced due to the unexpected additional tightening (practically a strangle-hold) of the money supply by the Fed.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 26

The prime rate move to 20.5 percent was not anticipated here. The new forecast shows the rate will only move down to the 17-18 percent range by the end of the year.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 29

In this issue, forecasts of Consumer Price Index for the first quarter 1981 have been selected for comparison.

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1.01 OVERVIEW

In the forecast made by KEDI in late 1980 for growth and unemployment this year, the percentage change in real growth used between the two years was 1.7 percent and the unemployment rate was projected at 7.4 percent at that time. That made this Institute one of the most optimistic.

Presented here are the growth rates and the unemployment rates for 1981 as taken from the Statistical Bulletin of the Conference Board (Volume 14, Number 1, January, 1981, pages 8 and 9). The growth rate used by KEDI was the highest, and the unemployment rate the lowest of the eight forecasters detailed by that publication.

	Real GNP Growth	Unemployment Rate
Data Resources	0.8	7.9
Chase Econmetric	0.6	8.1
Wharton	0.3	8.0
Merrill Lynch	-0.6	8.4
KEDI	1.7	7.4

Actual developments in the January-April period point to growth this year over 2 percent. The unemployment rate will be around 7.4 percent as was forecast here before the start of this year. KEDI did not need to upwardly revise its projection for growth nearly as much as others in the field.

OVERVIEW

Recent developments confirm the view that this year will show some overall growth. First, consumer spending will remain strong. Opinion poles have shown that expectations of consumers are fairly high. The expected tax cut plus viewing inflation as slowing this year are part of the reason consumers look to improvement. The Conference Board reported that there was a gain in its index of consumer confidence in April. The index was at 74.3 in April as compared to 70.9 in March. Although the buying-plans index moved downward, this is not viewed here as a long term trend.

Secondly, capital outlays of businesses will keep increasing. There are no indications that such spending will go down because of high interest rates. The forecast is maintained here of a 1 percent addition, adjusted for inflation, in this area. Consumer spending and capital outlays represent approximatley 75 percent of GNP.

Thirdly, foreign trade will keep improving throughout the rest of the year. This will add to the growth in GNP.

The Council of Economic Advisors predicted that there would be a rise in industrial production of about 6 percent from the middle of this year through 1982. They point to inflation adjusted gains in business investment of 4 percent in the latter half of this year and 7 percent next year.

OVERVIEW

KEDI maintains the forecast that has been made here for some time: the second and third quarters of this year will not show any particular gains but the last quarter will show some healthy growth. The chairman of the Council of Economic Advisors, Murray Weidenbaum, expressed the same general view in early May when he referred to weakness in the middle half of the year. However his description of 1981 as being "soft and soggy" is seen as too pessimistic here.

The KEDI May 1981 forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the April, 1981 issue, the changes concern the updates of Assumption No. 1 and change in Assumption No. 4.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $36 range. In 1982, it is expected the price will go up to $39-40, in 1983, to $44 per barrel. In 1984, to $48 per barrel, and in 1985, to $52 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: May 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1521.9	1564.6	1752.3
Index of Industrial Production	1967 =100	147.1	153.3	160.2	188.1
Capacity Utilization	%	78.7	80.2	84.1	87.0
Unemployment Rate	%	7.2	7.4	7.2	6.2
Private Housing Starts	mil. units	1.303	1.389	1.426	1.811
Car Sales	mil. units	9.1	9.9	10.2	11.4
Implicit GNP Price Deflator	1972 =100	177.4	194.6	210.0	265.0
Consumer Price Index	1967 =100	246.7	274.7	302.9	421.5
Producer Price Index	1967 =100	269.8	301.8	331.3	452.4
Federal Deficit	bil. $	-61.2	-49.1	-33.5	-21.8
Personal Income	bil. $	2160.2	2410.5	2661.7	3819.5
Prime Rate	%	15.10	17.81	16.16	12.04
Mortgage Rate	%	12.96	14.17	13.54	11.13
Currency plus Demand Deposits	bil. $	377.4	371.7	396.1	479.4
Commercial and Industrial Loans	bil. $	325.3	331.3	356.9	418.6

ASSUMPTIONS

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. The only major change in the Administration's proposal will concern the tax cuts. It is assumed that the 5 percent Federal income tax cut will be enacted effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.01 REAL GROWTH
(Table 1.10 on page 11)

The optimistic outlook for the rest of the year is underlined by general good news reported in the last month.

1. According to the monthly survey by the National Association of Purchasing Management Inc., better conditions were indicated in the areas of new orders, production, and employment. For example, 11 percent of those surveyed reported some cuts in employment whereas in March, that figure was 15 percent.

2. In March, factory orders gained by 1.3 percent over the prior month, largely due to a spurt in aircraft orders. In April, such orders showed a decline of 0.4 percent. That small drop is not seen here as significant. The March jump in aircraft orders distorted that monthly figure. If such orders were excluded from both March and April, a real gain would be seen in the April figure. Basic strength is there. Unfilled orders were up by 0.8 percent in March.

3. Factory output moved up by 0.4 percent in April, seasonally adjusted. According to the Federal Reserve, the increase would have been 0.7 percent if there had not been strikes in the coal mines. The index of industrial production was at 152.8 percent of its 1967 average in April. That represents a 3 percent gain over the year-earlier level.

4. Other good news came from the steel industry. Production there went up to 11.74 million tons as compared to the February level of 10.02 million. Granted, the March figure exceeded any month in 1980,

but still the industry is way down from levels of the late 1970's. The forecast of steel production shows continuous increases throughout the 1981-85 period.

5. Despite the decline in retail sales in April, there is strength there. Retail sales were off by 1 percent for the first downward move since May of 1980. It was attributed mostly to a sharp drop in auto sales after the spurt in the first quarter in that area due to big promotional campaigns and rebates. Excluding autos, retail sales inched ahead almost 1 percent in April from the adjusted level of the former month.

Major retailers reported large hikes in sales when the four-week April period is compared to the same week in 1980. For many of the large chains, such as Sears and Federated Department stores, jumps of over 20 percent were the rule.

6. Foreign trade continues to improve. The trade gap was reduced to $3.69 billion at the end of the first quarter whereas it exceeded $6 billion in the last quarter of 1980. A year ago, the deficit was over $10 billion. Exports were up by 9.3 percent in the first period of the year and imports only gained by 4.7 percent as compared to the prior quarter. The forecast shows the favorable trend in foreign trade will continue for the rest of this year.

REAL GROWTH

7. World grain supplies are at a 20 year low. The whims of nature are not exactly predictable, but it looks like the winter wheat crop in this nation could be a record harvest. Such wheat accounts for about 3/4ths of all such grain here. This crop was sown in the fall, and it is harvested in the early summer.

This good news is balanced by the conditions of depression in some industries. Because of that, the middle half of the year doesn't look promising. In the pits are the housing industry, savings and loan associations, construction, and automobiles.

Savings and Loan Associations have recorded the largest losses in their history. In April, there was a record net savings outflow of $4.6 billion. It is no surprise that the much higher rate of interest available from money-market funds was a prime cause. (It is a wonder that more people do not take steps to see that their money earns well over 10 percent instead of interest in perhaps half that at the local savings and loan establishment.) The issue of security of a place to sock away some funds is involved here with money market funds being seen as risky by the less frisky in particular.

The auto sales picture is misleading when one ignores what was typical in the last few years. Auto sales were headlined as being off by 1.7 percent in April as compared to the year-earlier figure. But the 1980 total was very depressed itself: being 31 percent lower than the April, 1979, total. Domestic makers were selling cars at a daily rate in April that was the slowest since the depressed rates in the spring of 1975.

REAL GROWTH

The other major depressed industry is construction. Building spending was down in both February and in March. Although construction in March was 4.6 percent above the level of 12 months earlier, that 1980 total was depressing by itself: a small gain from that low level is not enough to cause much cheering.

Another factor to consider is the general lack of balance in industry. The depressed industries were just mentioned, but others are doing well and some are just about stable. The lack of balance can be seen in the following table. Using the Index of Industrial Production as a basis for forecasting shows a wide diversity.

Yearly Percentage Change in the Index of Industrial Production for Selected Industries (Products) (1967=100)

	1978-79	1979-80	1980-81	1981-82
All Items	+ 4.4	- 3.5	+ 4.2	+ 4.5
Chemicals and Products	+ 7.3	- 2.4	+ 9.1	+ 9.8
Plastic Products	+11.9	- 1.4	+ 9.6	+ 8.4
Structural Clay Products	+ 1.9	-19.7	- 4.9	+ 8.1
Steel Mill Products	+ 1.2	-17.8	+26.2	+ 5.4
Motor Vehicles and Parts	- 5.9	-25.7	+ 5.1	+ 4.8
Aerospace	+15.4	+ 2.4	+ 3.0	+12.0
Cement	+ 5.6	-10.5	- 2.1	+ 3.7

REAL GROWTH

The table here shows a return to a more normal pattern in U.S. manufacturing in general not any earlier than 1982. This is mainly because the construction and housing industries (structural clay products, cement) won't recoup any before the latter part of 1982. Other industries that will not see improvement until 1982 are mainly as follows: lumber, furniture, appliances, glass, textile, apparel, and leather and products.

The steel industry will catch up in 1981. KEDI's forecast also shows the current year as a good one for the rubber industry; paper, printing and publishing; oil and gas extraction; food; electrical and nonelectrical machinery; and ordnance and accessories. Chemicals, plastics, and aerospace industries are also on the normal level currently.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.0	1519.4	1521.6	1530.6	1521.9
Index of Industrial Production	1967=100	147.1	151.8	153.1	153.6	154.7	153.3
Unemployment Rate	%	7.2	7.4	7.4	7.4	7.4	7.4
Capacity Utilization Rate	%	78.7	78.6	79.8	80.6	81.7	80.2
Private Housing Starts	mil. units	1.303	1.361	1.403	1.426	1.367	1.389
Car Sales	mil. units	9.1	10.2	9.9	9.4	10.1	9.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1521.9	1539.7	1554.7	1572.6	1591.4	1564.6
Index of Industrial Production	1967=100	153.3	155.8	158.1	161.9	164.8	160.2
Unemployment Rate	%	7.4	7.3	7.3	7.0	7.0	7.2
Capacity Utilization Rate	%	80.2	82.4	83.8	84.6	85.7	84.1
Private Housing Starts	mil. units	1.389	1.297	1.522	1.592	1.535	1.426
Car Sales	mil. units	9.9	10.0	9.7	10.3	10.9	10.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1564.6	1607.2	1625.4	1643.7	1665.8	1635.5
Index of Industrial Production	1967=100	160.2	166.1	169.7	173.7	175.4	171.2
Unemployment Rate	%	7.2	6.9	6.7	6.6	6.3	6.6
Capacity Utilization Rate	%	84.1	86.1	86.9	87.4	88.6	87.3
Private Housing Starts	mil. units	1.426	1.504	1.868	1.960	1.781	1.778
Car Sales	mil. units	10.2	10.2	10.0	10.4	11.0	10.4

* Historical Data

1.20 PRICES
(Table 1.20 on page 14)

As compared with the previous forecast, this one has been changed: the projections have been lowered for inflation as measured by the Consumer Price Index, Producer Price Index, and GNP Implicit Price Deflator as shown in Table 1.02.

The basic reason is the downward revision in the prices of oil and oil products. Also, there has been a change in the development of food prices. Those at the OPEC meetings going on at this writing are debating the price and production of oil. Saudi Arabia has been refusing to raise its price. (We are grateful for small favors.) They produce over 40 percent of the OPEC output. Their benchmark price is $32 per barrel. Other OPEC nations use a figure of $36. The ceiling price has been at $41 this year. The glut of oil is growing, and a bit of price lowering is expected to last into the middle of next year as a result of that glut. Hence, energy prices will not be gaining as much as had been expected earlier.

KEDI now forecasts the international price of oil this year at $36 per barrel. In 1982 it will go up to $39-40; in 1983, to $44; in 1984, the price anticipated is $48; and in 1985, the forecast is for a per barrel price of $52.

Food prices have been reduced in the projection. For one thing, meat supplies are greater than what traders thought they would be and

PRICES

consumers are not buying as much as was anticipated. The rise in interest rates adversely affects the profitability of raising cattle. Herds are sold off more quickly by cattlemen (that finance a good part of their business with bank loans) in order to lessen the interest they pay by repaying the loan as quickly as possible.

KEDI has reduced the inflation rate expected for food from approximately 10.5 to 9.8 percent for this year over last year. In 1982, the new projection for food prices shows a 9.7 percent rise over the current year as opposed to the calculation of 10.1 percent used formerly. The moderation in the rise in food prices is a temporary one. (Regarding food, a comparison may make our prices seem less objectionable. The typical British family earns less than the typical American family but has to pay about twice as much for a dozen eggs or a pound of beef.)

These two changes result in a reduction of the forecast for the Consumer Price Index upward change from 11.8 percent to 10.9 percent for 1981 over 1980.

Hourly earnings will continue to go up in the 10 percent range each year. That will result in continued price hikes. The inflation-adjusted earnings of the typical American worker in the 12 months ending in April were down by 0.6 percent. This will contribute to a push for even larger wage contracts to help make up some of the loss regardless of the rate of inflation this year. The forces contributing to the underlying rate of inflation remain basically unchanged.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

Month: May 1981

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	270.9	278.6	286.4	274.7
Producer Price Index, NSA	1967=100	269.8	287.3	299.5	306.2	314.1	301.8
Implicit GNP Price Deflator	1972=100	177.4	188.3	192.9	196.5	200.8	194.6
Gross National Product	bil. $	2626.1	2853.8	2930.9	2989.9	3073.4	2962.7
Personal Consump Expenditures	bil. $	1672.8	1805.8	1838.5	1870.3	1916.2	1857.7
Gross Private Dom. Investment	bil. $	395.3	435.4	454.3	461.5	477.8	457.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	274.7	295.4	297.8	304.6	313.7	302.9
Producer Price Index, NSA	1967=100	301.8	320.8	328.6	334.3	341.5	331.3
Implicit GNP Price Deflator	1972=100	194.6	204.7	208.1	212.0	215.0	210.0
Gross National Product	bil. $	2962.7	3151.8	3235.3	3333.9	3421.5	3285.6
Personal Consumpt Expenditures	bil. $	1857.7	1956.1	1996.8	2065.3	2108.3	2031.6
Gross Private Dom. Investment	bil.$	457.3	496.9	512.4	523.3	545.4	519.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	312.9	320.1	327.5	337.0	344.2	332.2
Producer Price Index, NSA	1967=100	331.3	349.6	356.4	365.7	371.2	360.7
Implicit GNP Price Deflator	1972=100	210.0	219.1	224.4	229.1	233.8	226.6
Gross National Product	bil. $	3285.6	3521.4	3647.4	3765.7	3894.6	3707.3
Personal Consump Expenditures	bil. $	2031.6	2165.7	2254.5	2342.5	2443.9	2301.6
Gross Private Dom. Investment	bil. $	519.5	566.4	584.8	597.2	607.4	588.9

*Historical Data

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 16)

The forecast concerning the unemployment rate remains basically unchanged here. In its outlook for 1981-82, KEDI has always seen the unemployment rate at a lower level than most others making calculations for those years. (See Overview, page 6.) KEDI still maintains that the unemployment rate will gradually keep on declining as can be seen in the table on the following page. Such a view is given support by the newly generated Leading Employment Index introduced by the Rutgers University Center for International Business Cycle Research. They feel their monthly index will give an advanced look of three to six months. April's index was at 145.2 percent of the 1967 average; up from the 143.6 of both March and February. The April figure is a record when viewed with indices of the decades prior for which Rutgers constructed comparable data.

The forecast here at KEDI for the workweek and overtime does show a slight change: a small increase in the fourth quarters of this year and next year when compared to the previous calculations.

Quarterly Averages: Workweek and Overtime

	Workweek Hours	Overtime		Workweek Hours	Overtime
1981: 1	35.4	2.9	1982: 1	35.9	3.3
2	35.4	3.0	2	36.0	3.4
3	35.6	3.0	3	36.3	3.4
4	35.9	3.2	4	36.7	3.5

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	99.1	99.8	98.9
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.8	96.5	95.5
Unemployment Rate	%	7.19	7.34	7.37	7.42	7.38	7.38

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.9	100.4	101.1	102.2	102.9	101.7
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.5	97.0	97.7	98.9	99.6	98.3
Unemployment Rate	%	7.38	7.30	7.28	7.02	7.01	7.15

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.7	104.1	105.4	106.0	107.0	105.7
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.3	100.9	102.0	102.7	103.6	102.3
Unemployment Rate	%	7.15	6.85	6.74	6.56	6.27	6.61

* Historical Data

EMPLOYMENT AND LABOR

Total employment went up by 0.6 percent in April to an adjusted 99 million. In March there was a gain of 0.5 percent over the prior month. Unemployment declined by 0.2 percent in terms of the number of unemployed seeking work. The total here was 7,750,000.

The unemployment rate edged down a bit to 5.8 percent in April from 5.9 in March for adult men. The rate for teenagers was unchanged at 19.1 percent, and the rate for adult women remained at 6.6 percent. The average workweek was the same in both March and April: 35.3 hours.

1.40 HOUSING

(Table 1.40 on page 19)

There are only minor changes in the housing forecast. Due to the impact of the upward revision in the forecast of mortgage rates for 1981-82, the outlook for the housing industry has been slightly reduced when compared to data in last month's issue. The basic underlying trend in housing activity foreseen remains unchanged: 1981 is seen as depressed and sluggish; 1982, some slow growth; 1983, a return to a more normal level of housing activities.

At the present time, the situation is not encouraging. The Home Builders Association estimates that over 320,000 new single-family houses are unsold due to the high interest rates. Still, KEDI does not see the

near future as being quite as bad as the National Association of Home Builders. That group revised their forecast for total housing starts this year in early May from about 1.4 down to 1.3 million, and it was indicated that it would be lowered again to 1.2 million because of the lack of funds. KEDI estimates housing starts at a total of 1.4 million for this year which will be down 11 percent from the depressed 1980 total. In 1982, the total expected is 1.6 million. That is hardly good, but it is not disaster.

Most home builders have to borrow to construct their buildings and they usually have to pay at least a point or two above the prime rate. This Institute agrees with the view of Murray Weidenbaum, chairman of the President's Council of Economic Advisers, that the current high rates will not last. Yet costly credit (but not quite as costly as current painful bites) is part of the long-term attempts to lessen the economic problems of this nation.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.889	.896	.865	.875
Multifamily Housing Starts	mil.	.473	.511	514	.530	.502	.514
Mobile Home Shipments	mil.	.222	.248	.275	.280	.264	.267
Housing Permits Issued	mil.	1.117	1.167	1.031	1.006	1.081	1.071
Construction Costs-Commerc.	1972=100	198.5	208.7	215.3	218.6	227.4	217.5
Construction Costs-Resident.	1972=100	198.6	209.5	216.0	218.6	227.5	217.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.875	.828	.984	1.014	.989	.954
Multifamily Housing Starts	mil.	.514	.469	.538	.578	.546	.533
Mobile Homes Shipments	mil.	.267	.258	.284	.314	.328	.296
Housing Permits Issued	mil.	1.071	1.109	1.375	1.482	1.786	1.438
Construction Costs-Commerc.	1972=100	217.5	234.9	246.3	254.0	259.0	248.6
Construction Costs-Resident.	1972=100	217.9	232.0	243.4	249.5	256.6	245.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.954	.914	1.167	1.236	1.114	1.108
Multifamily Housing Starts	mil.	.523	.590	.701	.724	.667	.670
Mobile Homes Shipments	mil.	.296	.340	.359	.378	.341	.354
Housing Permits Issued	mil.	1.438	1.354	1.628	1.753	1.714	1.612
Construction Costs-Commerc.	1972=100	248.6	266.1	275.7	283.8	294.6	280.1
Construction Costs-Resident.	1972=100	245.4	260.2	275.3	279.2	286.1	275.2

* Historical Data

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 21)

The updated Assumption No. 4 has been incorporated into the forecast here. That is, until April, 1981, it was assumed here that the Administration's tax-cut proposal of 10 percent a year for three years would be effective as of July first this year and another 10 percent off effective on July 1 next year, etc.

Now, KEDI assumes the first tax cut will be postponed in terms of an effective date until the first of October and will amount to 5 percent. That is the compromise recently settled between the White House and Capitol Hill. The plan proposed by both the conservative House Democrats and Republican Senator Dole calls for a 5 percent cut this fall and 10 percent in July of each of the next two years for a total of 25 percent. It now appears that the compromise proposal will have a better chance of becoming law than the original Reagan proposals. Calculations show that this change in the Administration's tax cut proposal would reduce the Federal budget deficits. However, its effects on reducing the rate of inflation will be not significant.

The change in the assumption about the tax cuts leads to the following revised estimates of the deficit.

Federal Deficits Forecast in Calendar Years (Billions $)

	Revised KEDI Forecast	Previous Forecast
1981	-49.1	-51.5
1982	-33.5	-34.8
1983	-29.3	-37.9
1984	-22.9	-26.8

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.2	295.7	301.8	302.8	295.9
Corporate Profit Tax Accruals	bil. $	70.1	77.3	81.4	85.6	94.0	84.6
Surplus./Deficit	bil. $	-61.2	-44.4	-50.1	-49.6	-52.3	-49.1
State and Local Governments:							
Income Taxes	bil. $	80.7	88.7	90.1	93.0	93.8	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.9	16.3	17.5	15.5
Surplus./Deficit	bil. $	29.1	37.9	39.1	40.6	38.2	39.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	295.9	308.9	317.3	319.5	329.8	318.9
Corporate Profit Tax Accruals	bil. $	84.6	102.1	108.3	114.6	124.1	112.3
Surplus./Deficit	bil. $	-49.1	-40.1	-31.2	-33.3	-29.2	-33.5
State and Local Governments:							
Income Taxes	bil. $	91.4	96.6	100.2	103.8	105.9	101.6
Corporate Profit Tax Accruals	bil. $	15.5	18.0	19.6	20.8	21.9	20.1
Surplus./Deficit	bil. $	39.0	36.4	35.7	34.9	33.8	35.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.9	339.6	351.4	360.7	370.9	355.7
Corporate Profit Tax Accruals	bil. $	112.3	131.7	138.2	143.6	149.7	140.8
Surplus./Deficit	bil. $	-33.5	-30.5	-27.6	-31.4	-27.5	-29.3
State and Local Governments:							
Income Taxes	bil. $	101.6	108.4	112.6	114.7	116.5	113.1
Corporate Profit Tax Accruals	bil. $	20.1	22.7	24.0	25.0	26.8	24.6
Surplus./Deficit	bil. $	35.2	32.6	33.8	34.5	35.6	34.1

* Historical Data

GOVERNMENT BUDGETS

In both 1983 and 1984, it is assumed here that budget cuts will exceed the previous forecast estimate by $4 billion and $2 billion, respectively. As a result, gaps of about $8 billion in 1983 and of about $4 billion in 1984 exist between this and the deficit forecast in the April issue.

The projection of surpluses of State and Local Budgets had been increased mainly due to the lower projection of their transfer expenditures in the 1981-83 years.

1.60 INCOME

(Table 1.60 on page 23)

Compared with the previous forecast, the data for Personal Disposable Income have been slightly decreased mainly due to the adjustments in Assumption No. 4. As described in the section on government budgets, a tax cut of 5 percent is now expected in the fall of this year instead of 10 percent in June.

The forecast for real personal disposable per capita income shows the impact of lower inflation rates in 1981-85 and the impact of the income tax cuts. Such income will start to increase modestly in the 1982-83 years and at a slightly better pace in 1984-85. At least, then, many won't feel they are still working harder, or more, only to avoid falling behind further.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2318.7	2396.2	2429.9	2497.1	2410.5
Personal Dispos. Income	bil. $	1821.7	1946.9	2010.4	2035.0	2101.5	2033.5
Compensation of Employees	bil. $	1596.5	1721.9	1766.8	1780.4	1825.5	1773.7
Corp. Profits After Tax	bil. $	163.1	168.3	173.1	180.6	188.3	177.7
Personal Saving	bil. $	101.3	92.2	95.7	97.3	105.6	97.7
Average Weekly Earnings	$	297.4	310.5	313.0	315.8	321.9	315.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2410.5	2559.2	2613.8	2703.2	2770.6	2661.7
Personal Dispos. Income	bil. $	2033.5	2153.7	2196.3	2279.9	2334.9	2241.2
Compensation of Employees	bil. $	1773.7	1864.2	1900.8	1963.9	2003.0	1933.0
Corp. Profits After Tax	bil. $	177.7	190.5	197.7	202.4	207.8	199.6
Personal Saving	bil. $	97.7	106.0	122.3	120.3	110.2	112.2
Average Weekly Earnings	$	315.3	324.5	328.8	336.8	343.1	333.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2661.7	2843.6	2955.5	3065.9	3169.9	3008.7
Personal Dispos. Income	bil. $	2241.2	2395.6	2491.5	2590.5	2682.5	2540.0
Compensation of Employees	bil. $	1933.0	2046.3	2126.7	2206.8	2284.3	2166.5
Corp. Profits After Tax	bil. $	199.6	215.7	217.8	222.2	228.6	221.1
Personal Saving	bil. $	112.2	112.5	113.9	127.9	123.2	119.4
Average Weekly Earnings	$	333.3	348.6	352.8	358.7	365.4	356.4

INCOME

Per Capita Real Personal Disposable Income, Percentage Change from the Previous Year

1981	1982	1983	1984	1985
-1.5	+0.2	+0.4	+1.1	+1.5

The forecast of corporate after tax profits remains essentially unchanged when compared with the April issue.

1.70 MONEY AND CREDIT
(Table 1.70 on page 25)

As compared with the forecast made last month, the data for currency and demand deposits, M1A, have been reduced mainly due to the recent tightening of the money supply by the Federal Reserve. It is now expected that monetary policy will remain tight during the rest of this quarter and in the third quarter. Some relaxation is expected, but not before the last quarter of this year.

KEDI has lowered the forecast data for Commercial and Industrial Loans and Consumer Installment Credit for the 1981-82 period. It has been increased a bit for 1983. On balance, these changes are not very large when compared to the data in the April issue.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	367.5	368.3	372.6	378.5	371.7
Time Deposits, Adjusted, M2	bil. $	1596.2	1692.7	1718.8	1740.1	1758.5	1727.5
Consumer Instal. Credit	bil. $	313.4	310.8	314.5	321.6	329.7	329.7
Commerc. & Industr. Loans at Banks	bil.$	325.3	320.7	324.0	326.6	331.3	331.3
Negotiable Cert. of Deposits	bil. $	129.2	132.1	136.6	140.4	144.9	144.9
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.0	508.2	511.2	511.2
Indicator	Unit	1931	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	371.7	386.3	392.4	398.9	406.7	396.1
Time Deposits, Adjusted, M2	bil. $	1727.5	1779.3	1795.6	1834.3	1872.7	1820.5
Consumer Instal. Credit	bil. $	329.7	336.4	342.7	349.6	355.9	355.9
Commerc. & Industr. Loans at Banks	bil. $	331.3	336.2	340.7	350.2	356.9	356.9
Negotiable Cert. of Deposits	bil. $	144.9	148.2	151.1	156.3	159.7	159.7
Mortgages at S & L Assns.	bil. $	511.2	514.6	521.3	524.5	530.8	530.8
Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	396.1	414.6	424.8	436.5	449.7	431.4
Time Deposits, Adjusted, M2	bil. $	1820.5	1804.6	1941.5	1986.3	2030.7	1965.8
Consumer Instal. Credit	bil. $	355.9	364.7	371.8	378.3	384.1	384.1
Commerc. & Industr. Loans at Banks	bil. $	356.9	360.1	370.9	378.7	383.4	383.4
Negotiable Cert. of Deposits	bil. $	159.7	164.6	167.2	169.4	170.3	170.3
Mortgages at S & L Assns.	bil. $	530.8	537.6	542.4	549.6	553.4	553.4

MONEY AND CREDIT

The projection here is that the demand for commercial and industrial loans will be strong throughout the rest of this year and in 1982 despite the recent surge in interest rates. It is also anticipated here that consumers' demand for loans will continue to gain regularly this year and next year.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES

(Table 1.80 on page 28)

KEDI considers last week's leap in interest rates as more of a temporary phenomenon than as a lasting condition. It is considered to be highly improbable that any further increases of any lasting nature will be added to the already high rates.

The prime rate jumped ahead to 20.5 percent in most of the major banks last week. The record of 21.5 percent was reached last December. A year ago the prime rate was at 14 percent. (Does that seem like the good old days?) On page 28 of the March issue, KEDI indicated that a prime rate of 20 percent or more was not anticipated here. Most other economists were also surprised by the Federal Reserve action that further tightened credit drastically.

KEDI's newest prediction shows that the prime rate will be in the 21 percent range at the end of this quarter and the beginning of the

third quarter. A decline will start gradually. The 17-18 percent bracket will be reached by the end of this year.

The developments of the last few days show that the surge in interest rates is either close to the peak or has already reached the peak. Short-term interest rates fell sharply. For example, 13-week Treasury bill closed at 15.94 on May 24. They were averaging 16.75 a few days earlier. Rates on three-month CDs rolled down to below 18 percent from being above 19 percent a few days earlier.

The view of Mr. Kellner of Manufacturers Hanover Trust that the next change in the prime rate will be down if the high prime rate remains for a few days (it is still with us at this writing) is shared here.

In general, foreign interest rates are around 13-14 percent, and there are no indications that they will rise significantly in the foreseeable future. U.S. interest rates presently around 19-21 percent cannot deviate from the world level for long. That supports our assumption that the current stratospheric level of interest rates will not last very long.

Compared with the previous forecast, this one is, on the average, higher by 1 percent for the rest of the 1981-83 years for the prime rate. The forecast for the three-month Treasury bill rate has been moved up by 1 to 1½ percent, and the mortgage rate was raised in the forecast by 0.5 percent.

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	15.87	15.06	14.41	14.82
Prime Rate	%	15.10	19.06	18.92	19.09	18.31	18.84
Mortgage Rate, New Homes	%	12.96	14.46	14.62	14.38	14.12	14.40
Aaa Bonds Rate	%	11.96	13.47	13.56	13.47	13.39	13.47
Long Term Govt. Bonds Yield	%	11.39	12.42	12.76	12.70	12.53	12.60
Standard & Poor's 500 Average	1941-43 =10	118.71	132.83	131.48	130.76	132.51	131.90

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.82	13.86	13.42	12.56	12.27	13.03
Prime Rate	%	18.97	17.74	17.32	16.67	16.38	17.03
Mortgage Rate, New Homes	%	14.40	13.57	13.62	13.64	13.51	13.59
Aaa Bonds Rate	%	13.47	12.75	11.98	11.47	11.15	11.84
Long Term Govt. Bonds Yield	%	12.60	12.32	12.46	12.75	12.91	12.61
Standard & Poor's 500 Average	1941-43 =10	131.90	131.26	132.68	134.86	137.09	133.97

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.03	12.47	12.59	12.85	13.24	12.79
Prime Rate	%	17.03	16.24	16.02	16.14	16.37	16.19
Mortgage Rate, New Homes	%	13.59	13.21	13.47	13.52	13.26	13.37
Aaa Bonds Rate	%	11.84	11.08	11.51	11.64	11.87	11.52
Long Term Govt. Bonds Yield	%	12.61	12.65	12.14	11.90	11.32	12.00
Standard & Poor's 500 Average	1941-43 =10	133.97	136.93	135.71	136.94	138.75	137.08

* Historical Data

INTEREST RATES, YEILDS, AND SECURITIES PRICES

The forecast of the stock market, as measured by Standard and Poor's 500 average remains basically unchanged.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Consumer Price Index for the first quarter of 1981 has been selected for comparison. Actual figures for January and February are in Weekly Business Statistics, Supplement to the Survey of Current Business, (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), and for March 1981, in the Wall Street Journal, April 24, 1981. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, KEDI, Manufacturers Hanover Trust, and Chemical Bank were on the mark.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
CONSUMER PRICE INDEX
(First quarter 1981, 1967=100)

Actual: 262.9

	Page of Business Forecasts 1981	Forecast	%of Accuracy
Georgia State University	23	265.0	+ .8
The First National Bank of Chicago	24	262.5	.0
Manufacturers Hanover Trust	25	260.9	- .1
Chemical Bank	26	262.7	.0
KEDI	33	263.0	.0
Fidelity Bank	34	264.9	+ .8
Morgan Guaranty	35	265.5	+1.0
Chase Econometrics	36	264.3	+ .5
Bankers Trust	30	263.9	+ .4

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June 30, 1981

President: Vladimir J. Simunek

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The May inflation rate went up from the April level. The average rate of inflation for this year expected by KEDI has been reduced to 10.2 percent mainly due to changes in housing and energy prices.

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The forecast here has been revised downward due to the mortgage rate remaining at high levels. Housing starts were down by 14 percent in May from the April level.

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The Senate approved budgets for the next few years are close to what KEDI has been projecting. Reagan anticipates a surplus of .5 billion dollars in 1984. That is not foreseen here.

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There are no changes, in general, in the forecast concerning income. The small increase in the projection of average weekly earnings is balanced somewhat by the slight decline in the forecast for corporate profits.

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KEDI does not anticipate much relaxation in this area by the Fed's. M1A is expected to grow just 3.6 percent this year.

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KEDI expects some decline in interest rates--no sharp drops. The prime rate is projected in the 17-18 percent range for the end of this year.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 26

In this issue, forecasts of Personal Income for the first quarter 1981 have been selected for comparison.

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1.01 OVERVIEW

The forecast presented here remains essentially unchanged when compared with the May issue. There are four basic reasons involved.

First, the assumption here of the Administration's budget cuts have been confirmed by the recent approvals of the Senate and the House. Budget cuts and tax cuts have been assumed here since November of 1980.

A coalition of conservative Democrats and Republicans have become dominating in Congress. Late in June, the Democratic House voted 217 to 211 to cut $35.6 billion from the fiscal 1982 budget. The Senate approved a similar budget by 80 to 15.

Secondly, federal income tax cuts of 25 percent were incorporated in the forecast last month. (Previously, cuts of 30 percent had been assumed here.) Indications point to approval of the tax cuts.

Thirdly, it has been maintained here, since 1980, that the second and third quarters of this current year would be sluggish and lack balance, and that the fourth quarter of 1981 would show more significant growth. Recently released data confirm that trend. Hence, there is no need to change the assumptions.

Fourth, the assumptions concerning good harvests in 1981 also remain the same and are being confirmed. The Agriculture Department still expects a record crop of winter wheat in excess of 2 billion bushels.

OVERVIEW

That is a gain of about 6 percent over last year, despite allowances for the severe storms in the Farm Belt.

There is one main area of change in this issue. Due to the disputes and negotiations among OPEC nations, the forecast for the price of oil has been changed. That results in different predictions for the changes in prices expected as measured by the Consumer Price Index. In the May issue, the 1981 inflation rate was set at 10.9 percent. That is now reduced to 10.2 percent.

An Oil Minister from a South American nation reported that OPEC members were worried about the increasing use of coal for power generating and conservation measures being more successful than they ever anticipated. (No sympathy here for their worries.) Some members feel the oil glut could last two or even three years. Based on that, there is some pressure for a price freeze for at least two years. This is one of the indications that the price of oil will stabilize. Consequently, the pressure on prices for oil and related products in this country will ease.

Again, focusing on the current year, KEDI agrees with Commerce Secretary Malcolm Baldrige: the middle two quarters of this year will not have any zip, and there will be growth in the fourth quarter. Overall, the growth in real GNP anticipated by the Administration in 1981 as compared to the prior year has been increased from 1.1 percent to 2.5 percent due to the strong first quarter performance.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the April, 1981 issue, the changes concern the updates of Assumption No. 1.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $37-38; in 1983, to $40 per barrel; in 1984, to $44 per barrel; and in 1985, $48 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. The only major change in the Administration's proposal will concern the tax cuts. It is assumed that the 5 percent Federal income tax cut will be inacted effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

8. No drastic changes in existing international relationships are assumed in this forecast.

The June 1981 KEDI forecast is highlighted in Table 1.0 on page 5.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1520.4	1564.6	1751.8
Index of Industrial Production	1967 =100	147.1	152.9	159.2	188.0
Capacity Utilization	%	78.7	80.6	84.0	86.9
Unemployment Rate	%	7.2	7.4	7.2	6.2
Private Housing Starts	mil. units	1.303	1.309	1.446	1.810
Car Sales	mil. units	9.1	9.9	10.3	11.4
Implicit GNP Price Deflator	1972 =100	177.4	193.9	209.1	259.7
Consumer Price Index	1967 =100	246.7	271.8	296.3	409.8
Producer Price Index	1967 =100	269.8	297.1	322.7	436.5
Federal Deficit	bil. $	-61.2	-48.6	-33.1	-19.7
Personal Income	bil. $	2160.2	2400.2	2648.8	3811.4
Prime Rate	%	15.10	18.88	17.20	12.43
Mortgage Rate	%	12.96	14.41	13.71	11.18
Currency plus Demand Deposits	bil. $	377.1	367.4	391.1	463.2
Commercial and Industrial Loans	bil. $	324.9	344.8	369.4	422.5

1.10 REAL GROWTH
(Table 1.10 on page 9)

Although the first quarter seems quite a while ago in these hot June days, an update is in order. It was mid-June when the Commerce Department released its second revision of the growth in GNP that took place in the first three months of this year. The estimate now used by them is 8.6 percent (as opposed to their first estimate of 6.5 and their first revision of 8.4 percent). It is agreed that the first quarter figures were exaggerated by the mild winter, as opposed to severe winters before them. Some economists expect the second quarter to show a decline. KEDI and others anticipate no essential change; ie., a flat quarter. (Last year, real GNP dropped close to 10 percent in the second quarter, but it moved ahead in both the third and fourth periods.)

Recently released data confirm the forecast here of unbalanced growth in the middle quarters of this year. There are both positive and negative signs on the horizon.

1. The Index of Leading Economic Indicators did increase a bit in April. The 0.4 percent rise was preceded by a gain of 1.8 percent in March. This index does have a less-than-perfect record in predicting trends, but it has been fairly accurate for the past 12 months, at least.

2. The Index of Industrial Production gained 6.1 percent in May over the year-earlier figure. The Index was at 152.8 percent of its 1967 average. Much of the May growth was attributed to increased output

of cars as manufacturers built up their inventories again following the rebates and discounts of the previous months.

3. All things considered, the small gain in seasonally adjusted retail sales is still on the side of good news. The tiny upward movement of 0.2 percent followed a decline in April of a revised 2.1 percent. Excluding autos, retail sales were about the same in May as in April. (The figures are not adjusted for inflation.)

4. Factory shipments were practically flat in April when compared to the prior month. Such shipments, seasonally adjusted, remained in the $162 billion range. As there was no real decline, this is seen as a positive sign.

5. The Commerce Department reported that the U.S. had a $3.09 billion, seasonally adjusted, balance of payments surplus on the current account in the first quarter. That was $1.7 billion greater than the surplus of the last period of 1980 and indicates that money is flowing into this nation which exerts a favorable influence on the dollar in terms of exhange rates.

As part of that balance, U.S. trade with China is playing a gradually increasing role. Last year, the value of trade between the two came to almost $5 billion. U.S.A. sales to China amounted to $3.7 billion--representing about 2 percent of all exports of this country. Experts see such trade expanding to as much as $7 billion this year. (Companies

glancing toward the market in China are advised to allow at least two years for developing such business by the private "National Council on U.S. - China Trade.") It isn't exactly a pot of gold by a Chinese lantern: Coca-Cola is still limited to selling only to tourists there--not by the people, but by the government.

Nov for the negative news:

6. In early June, car sales gained by more than 10 percent from the year-ago level. However, they were still at very low levels. In the first ten days of June, sales of autosmade here were estimated at slightly more than 174,000. Still, that is the second worst early June recorded since 1961. Hence, it is not considered basic positive news here.

7. New orders for durable goods went down by 0.4 percent in May. That was the first decline since January. It followed a revised gain of 0.1 percent in April from the prior month. New orders for nondefense capital goods were down by 0.5 percent in May. The backlog of orders edged up 0.3 percent.

8. Machine tool orders plunged downward by 25 percent in May from the April level. Industry officials cited the high interest rates and uncertainty over the size of the tax break expected. The debate over what form accelerated depreciation increases will take continues in Congress. That is a factor in causing many machine-tool buyers to put off purchasing for a while.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1518.0	1529.4	1527.7	1520.4
Index of Industrial Production	1967=100	147.1	151.8	152.6	152.9	154.0	152.9
Unemployment Rate	%	7.2	7.4	7.5	7.5	7.4	7.4
Capacity Utilization Rate	%	78.7	79.9	80.1	80.9	81.6	80.6
Private Housing Starts	mil. units	1.303	1.361	1.242	1.343	1.289	1.309
Car Sales	mil. units	9.1	10.2	9.8	9.4	10.1	9.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1520.4	1539.4	1554.6	1572.7	1591.9	1564.6
Index of Industrial Production	1967=100	152.9	155.4	157.6	160.3	163.4	159.2
Unemployment Rate	%	7.4	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	80.6	82.2	83.6	84.5	85.8	84.0
Private Housing Starts	mil. units	1.309	1.233	1.475	1.575	1.503	1.446
Car Sales	mil. units	9.9	10.1	9.8	10.3	10.9	10.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1564.6	1607.3	1625.6	1643.9	1666.7	1635.9
Index of Industrial Production	1967=100	159.2	166.5	169.5	173.6	175.4	171.3
Unemployment Rate	%	7.2	6.9	6.8	6.7	6.4	6.7
Capacity Utilization Rate	%	84.0	86.1	86.7	87.5	88.4	87.2
Private Housing Starts	mil. units	1.446	1.450	1.850	1.916	1.750	1.743
Car Sales	mil. units	10.3	10.2	10.0	10.5	11.0	10.4

* Historical Data

9. The monthly survey of purchasing managers showed the rate of buying "stalled" in June. The survey showed that just 19 percent said their new orders were up--as opposed to 32 percent citing gains in the May survey.

KEDI views the news in durable goods, machine tool orders, and the survey of purchasing managers to be temporary. It is expected here that the last quarter of this year will show significant improvement in these three areas, at least.

1.20 PRICES

(Table 1.20 on page 13)

The inflation rate in May moved ahead by more than three points from the April rate. Pushed by housing costs, the annual rate of inflation in May reached 8.4 percent. Prices this May were 9.8 percent above the year-earlier figure. That is single digit inflation, but it is not that far from being double digit.

For the month of May, prices went up 0.7 percent which was attributed mostly to housing costs reflecting the higher interest rates. Housing costs went up 1.3 percent.

A little good news: gasoline prices fell by 1.5 percent in May from the April level. Food and beverage prices did show a small decline

of 0.2 percent. However, new car prices were up by 2.4 percent. Medical care costs continued to rise. They were up 0.9 percent in May and were led by the 1.1 percent gain in Doctors' fees. (If you have not had a physician's bill in the last year or so, here is a salute to your good health and a warning not to be surprised by the cost of an office visit being quite a few dollars more on your next trip which we hope is routine.)

This forecast contains a decrease in the rate of inflation when compared with the previous forecast of this Institute. Instead of an anticipated rate of inflation as measured by the Consumer Price Index of 10.9 percent, a rate of 10.2 percent for this year as compared to 1980 is now used. The rate calculated for 1982 is now 9.8 percent. The reduction is mainly due to the downward revision of increased in prices of energy related items, housing and food for this year and next year.

Recent forecasts of price gains by three other forecasters are included:

	1981	1982
KEDI	10.2%	9.8%
Data Resources	10.0%	8.7%
Morgan Guaranty	9.7%	7.5%
Gary Shilling & Co.	9.8%	8.0%

Murray Weidenbaum, chairman of the Council of Economic Advisers, views the Administration prediction of an 11.1 percent hike in consumer prices as being too high. The White House has not yet decided when to revise their forecast.

KEDI is not as pessimistic as the currently available Administration figure indicates. KEDI is not as optimistic as the other three forecasters just cited. The main reasons here concern labor contracts and productivity.

In 1982, large wage settlements will take place, mainly in the auto, rubber, and machinery fields, It is not expected at this Institute that the contract negotiations will result in much less than 10 percent yearly wage increases. That will not allow any significant decline in the share of labor costs in the value of output. Labor costs are one of the main sources of pressure on prices. Consequently, there will not be any meaningful decline in the rate of price gains.

A second reason that KEDI views the inflation rate as higher than many other forecasters is that meaningful gains in productivity are not expected this year, or next year, or even in 1983. Significant gains in productivity are not going to occur before 1984, according to calculations here. At that time, they will contribute to slowing down the rate of inflation.

On the brighter side, KEDI is not as pessimistic as Henry Kaufman according to a quote on the front page of the June 16 issue of The Wall Street Journal. It seems he thinks the policy of large tax cuts and higher defense spending are "exceedingly expansionary" and will make it hard to cool inflation.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

Month: June 1981

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981 1	1981 2	1981 3	1981 4	1981
Consumer Price Index, NSA	1967=100	246.7	262.9	269.5	274.7	280.2	271.8
Producer Price Index, NSA	1967=100	269.8	287.3	294.8	300.4	305.9	297.1
Implicit GNP Price Deflator	1972=100	177.4	188.1	192.0	195.7	199.8	193.9
Gross National Product	bil. $	2626.1	2853.0	2915.0	2973.4	3052.3	2948.2
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1860.3	1901.5	1850.2
Gross Private Dom. Investment	bil. $	395.3	437.1	456.0	463.2	479.6	459.0

Indicator	Unit	1981	1982 1	1982 2	1982 3	1982 4	1982
Consumer Price Index, NSA	1967=100	271.8	287.3	292.4	298.7	306.9	296.3
Producer Price Index, NSA	1967=100	297.1	311.6	319.7	325.8	333.8	322.7
Implicit GNP Price Deflator	1972=100	193.9	204.0	207.5	211.4	214.5	209.1
Gross National Product	bil. $	2948.2	3125.3	3223.6	3324.5	2414.7	3272.5
Personal Consumpt Expenditures	bil. $	1850.3	1936.2	1993.6	2062.3	2108.0	2025.0
Gross Private Dom. Investment	bil.$	459.0	498.6	514.1	525.0	546.9	521.2

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983
Consumer Price Index, NSA	1967=100	296.3	312.1	318.7	325.5	331.9	322.1
Producer Price Index, NSA	1967=100	322.7	339.1	347.6	355.4	361.1	350.8
Implicit GNP Price Deflator	1972=100	209.1	218.6	223.8	228.4	233.1	226.0
Gross National Product	bil. $	3272.5	3513.6	3637.9	3754.6	3885.1	3697.8
Personal Consump Expenditures	bil. $	2025.0	2165.0	2251.7	2337.8	2440.9	2298.7
Gross Private Dom. Investment	bil. $	521.2	568.1	586.5	598.9	609.1	590.6

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

The unemployment rate in May moved upward to an adjusted 7.6 percent of the labor force from the April level of 7.3 percent. The economy did expand some through the first quarter of this year and including the last half of 1980, but the growth in the size of the labor force outstripped the economic growth. The head of the Labor Department bureau that puts out such data, Janet Norwood, estimates that 2.3 million workers were added to the labor force in the last year.

Total employment rose by 0.3 percent in May, but the number unemployed went up 5.5 percent to an adjusted 8.2 million. White unemployment increased to 6.8 percent from the April level of 6.5. Black joblessness gained by 0.4 points to 13.6 percent.

As compared with the previous forecast of 7.4, this one anticipates unemployment for 1981 averaging 7.5 percent. Figures for 1982 and 1983 are essentially unchanged. It is not expected here that there will be any dramatic rise in this rate during these years.

KEDI agrees with the view expressed by Geoffrey Moore of the Rutgers Center for International Business Cycle Research, among others, that the outlook for employment is generally good for the next few months.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.2	99.1	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	94.9	95.7	96.4	95.4
Unemployment Rate	%	7.19	7.34	7.52	7.50	7.43	7.45

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.8	100.3	101.0	102.3	102.9	101.6
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	96.9	97.6	99.0	99.6	98.2
Unemployment Rate	%	7.45	7.41	7.32	7.10	7.08	7.23

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.6	104.2	105.3	106.8	106.9	105.8
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.2	100.9	101.9	102.5	103.5	102.3
Unemployment Rate	%	7.23	6.92	6.83	6.71	6.42	6.72

* Historical Data

The forecast of the average workweek and overtime remains unchanged from last month's issue. Very gradual gains are foreseen here.

1.40 HOUSING
(Table 1.40 on page 17)

The forecast for housing starts in both 1981 and 1982 has been revised downward. Previously, KEDI calculations showed starts amounting to 1.4 million in 1981 and 1.5 in 1982. The revised forecast here shows 1.3 million starts for this year and 1.4 for 1982. The main reason for this reduction centers on interest rates.

Very high mortgage rates have lasted longer than was forecast here. That has had an obvious negative impact on the housing industry. The majority of economists and professionals share the view that housing will remain depressed until interest rates come down. KEDI maintains its forecast of a substantial recovery by 1983, as can be seen in Table 1.40 on page 16.

Speaking of depressed, the Mortgage Bankers Association of America released figures that showed a new record was set in the first quarter of this year for homeowners being late with their mortgage payments. A record high delinquency rate of 5.31 percent was reached. (Illinois had the highest rate, 8.54 percent, and South Dakota had the lowest, 2.41.) High unemployment and the stagnation in the auto industry were blamed.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.822	.857	.826	.839
Multifamily Housing Starts	mil.	.473	.511	.420	.486	.463	.470
Mobile Home Shipments	mil.	.222	.248	.279	.284	.256	.267
Housing Permits Issued	mil.	1.117	1.167	1.056	1.002	1.034	1.065
Construction Costs-Commerc.	1972=100	198.5	208.7	214.9	218.0	226.7	217.1
Construction Costs-Resident.	1972=100	198.6	209.5	215.3	217.4	226.8	217.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.839	.819	.956	1.006	.961	.935
Multifamily Housing Starts	mil.	.470	.414	.519	.569	.542	.511
Mobile Homes Shipments	mil.	.267	.261	.289	.319	.337	.301
Housing Permits Issued	mil.	1.065	1.102	1.364	1.491	1.721	1.420
Construction Costs-Commerc.	1972=100	217.1	232.8	243.5	250.7	255.6	245.7
Construction Costs-Resident.	1972=100	217.3	230.4	240.5	244.3	252.7	242.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.935	.918	1.161	1.205	1.096	1.095
Multifamily Housing Starts	mil.	.511	.538	.689	.711	.654	.648
Mobile Homes Shipments	mil.	.301	.342	.361	.383	.349	.359
Housing Permits Issued	mil.	1.420	1.350	1.611	1.704	1.683	1.587
Construction Costs-Commerc.	1972=100	245.7	260.2	268.7	275.9	283.4	272.1
Construction Costs-Resident.	1972=100	242.0	255.6	268.9	274.3	279.5	269.6

* Historical Data

Housing starts in May fell by 14 percent to a seasonally adjusted annual rate of 1,152 million units. Starts on single-family houses were down by 16.3 percent and multifamily starts declined by 9.3 percent from the April level on an adjusted basis.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 19)

The forecast here remains essentially unchanged. KEDI's projection's of federal budgets for fiscal years 1981-84 are close to that recently approved by the Senate. The Senate approved bill would cut spending by roughly $39 billion in the next fiscal year. Through 1984, the cuts would amount to a whopping $140 billion.

FEDERAL BUDGET PROJECTIONS (Fiscal years, bil. $)

	KEDI	SENATE	Difference in %
1981	667.5	661.4	.9
1982	699.3	692.0	1.1
1983	743.8	733.0	1.5
1984	789.5	776.0	1.7

FEDERAL DEFICIT PROJECTIONS (Fiscal years, bil. $)

	KEDI	ADMINISTRATION
1981	-37.4	-45.2
1982	-31.2	-32.4
1983	-25.8	-15.2
1984	-18.9	+ .5

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.8	301.2	303.0	295.3
Corporate Profit Tax Accruals	bil. $	70.1	77.9	81.6	85.7	94.2	84.9
Surplus./Deficit	bil. $	-61.2	-43.4	-50.3	-49.0	-51.7	-48.6
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	90.0	92.9	93.9	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.2	15.0	16.2	17.7	15.5
Surplus./Deficit	bil. $	29.1	37.0	38.7	39.4	36.8	38.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	295.3	309.1	317.5	319.7	329.6	319.0
Corporate Profit Tax Accruals	bil. $	84.9	102.0	108.1	114.2	124.5	112.2
Surplus./Deficit	bil. $	-48.6	-40.0	-30.2	-33.3	-28.7	-33.1
State and Local Governments:							
Income Taxes	bil. $	91.4	96.7	100.3	104.0	105.6	101.7
Corporate Profit Tax Accruals	bil. $	15.5	18.1	19.8	20.7	22.0	20.2
Surplus./Deficit	bil. $	38.0	34.9	35.2	34.3	32.6	34.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	319.0	339.4	351.9	357.6	370.4	354.8
Corporate Profit Tax Accruals	bil. $	112.2	131.4	138.1	143.2	149.3	140.5
Surplus./Deficit	bil. $	-33.1	-30.1	-25.4	-31.7	-24.3	-27.9
State and Local Governments:							
Income Taxes	bil. $	101.7	108.5	112.8	114.9	116.7	113.2
Corporate Profit Tax Accruals	bil. $	20.2	22.8	24.2	25.3	27.0	24.8
Surplus./Deficit	bil. $	34.3	32.1	32.7	34.1	34.3	33.3

* Historical Data

Data for projections of the deficit are not strictly comparable because different sources were used. The Administration's projection of the deficit is taken from sources published by the Office of Budget and Management in April, 1981. KEDI data are taken from this month's projection. It is shown that KEDI is less optimistic than the Administration. No balanced budget in 1984 is seen here.

1.60 INCOME

(Table 1.60 on page 21)

The general forecast data for income remains essentially the same in this issue as it was in the May issue. In this forecast, the average weekly earnings of factory workers were increased slightly. The reason lies in the average earnings in the auto, machinery, rubber, and chemical industries as being somewhat higher than was previously predicted here.

Generally offsetting that in the gross figures, is the slight decrease made in the forecast here for corporate after-tax profits. The main reason is the downward forecast of profits in both the petroleum and the construction industries.

Actual data for personal income for May showed sluggish growth. It is expected here, however, that future months will show a more normal level of gains in personal income. Two factors responsible here are the settlement of the coal strike and the boost in Social Security payments due in July.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2382.5	2416.8	2481.7	2400.2
Personal Dispos. Income	bil. $	1821.7	1947.8	1998.5	2022.6	2084.7	2013.4
Compensation of Employees	bil. $	1596.5	1722.4	1754.0	1767.3	1807.4	1762.8
Corp. Profits After Tax	bil. $	163.1	168.0	172.8	180.3	188.0	177.3
Personal Saving	bil. $	101.3	88.9	92.9	97.3	100.6	94.9
Average Weekly Earnings	$	297.4	310.7	316.0	320.2	325.9	318.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2400.2	2534.1	2603.4	1694.4	2763.6	2648.8
Personal Dispos. Income	bil. $	2013.4	2128.2	2185.5	2270.7	2545.8	2228.2
Compensation of Employees	bil. $	1762.8	1841.1	1894.5	1958.4	1999.1	1923.3
Corp. Profits After Tax	bil. $	177.3	190.2	197.4	202.1	207.5	199.3
Personal Saving	bil. $	94.9	103.1	108.6	118.1	116.0	111.5
Average Weekly Earnings	$	318.2	330.4	335.1	341.2	347.8	338.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2648.8	2839.5	2949.2	3056.2	3161.8	3001.6
Personal Dispos. Income	bil. $	2228.2	2391.5	2484.4	2583.6	2674.6	2533.5
Compensation of Employees	bil. $	1923.2	2042.1	2121.5	2200.2	2278.4	2160.6
Corp. Profits After Tax	bil. $	199.3	215.4	217.5	221.9	228.3	220.8
Personal Saving	bil. $	111.5	114.0	114.9	119.6	121.2	117.4
Average Weekly Earnings	$	338.6	352.4	358.9	364.8	371.5	361.9

This Institute agrees with the view of William Cox, acting chief economist for the Commerce Department. He spoke of the slow growth in income as being attributable to a leveling of both the percentage employed and the hours worked. The July adjustment for inflation in Social Security and other benefit programs plus passage of a tax package before winter will aid consumption.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI shares the view of the majority of forecasters that there will be no further tightening of monetary and credit policy by the Federal Reserve in the coming months. However, unlike some, KEDI does not expect to see any drastic loosening of monetary policy or lowering of interest rates. The assumption that the Fed's policy will remain tight for this year and next year is maintained: There will not be any more apparent relaxation before 1983. Forecast data here show moderate increases in the money supply, M1A, over the next years. Growth of this measure of the money supply calculated by KEDI is as follows: 1981, 3.6 percent; 1982, 4.0 percent; 1983, 4.7 percent; 1984, 4.9 percent, and 1985, 4.8 percent. That is in line with overall economic growth projected for these years.

Forecast data for commercial and industrial loans have been increased slightly for the 1982-83 period when compared to last month's forecast. A somewhat stronger demand for loans is expected in the automobile,

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.1	368.3	363.2	366.4	371.8	367.4
Time Deposits, Adjusted, M2	bil. $	1597.4	1697.0	1726.5	1749.8	1769.4	1735.7
Consumer Instal. Credit	bil. $	313.4	310.8	314.9	323.1	330.6	330.6
Commerc. & Industr. Loans at Banks	bil.$	324.9	330.4	335.1	339.7	344.8	344.8
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.9	141.5	146.3	146.3
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.9	508.3	511.6	511.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	367.4	382.0	387.6	393.4	401.2	391.1
Time Deposits, Adjusted, M2	bil. $	1735.7	1792.4	1809.7	1844.9	1881.3	1832.1
Consumer Instal. Credit	bil. $	330.6	338.2	343.1	350.7	358.0	358.0
Commerc. & Industr. Loans at Banks	bil. $	344.8	349.2	354.8	366.7	369.4	369.4
Negotiable Cert. of Deposits	bil. $	146.3	149.2	153.6	159.4	163.2	163.2
Mortgages at S & L Assns.	bil. $	511.6	514.9	522.2	525.6	531.9	531.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	391.1	408.7	416.5	421.8	429.9	419.2
Time Deposits, Adjusted, M2	bil. $	1832.1	1908.1	1944.3	1991.5	2042.5	1971.6
Consumer Instal. Credit	bil. $	358.0	365.2	373.6	381.5	385.4	385.4
Commerc. & Industr. Loans at Banks	bil. $	369.4	373.5	386.7	389.5	394.2	394.2
Negotiable Cert. of Deposits	bil. $	163.2	166.7	169.8	173.1	175.2	175.2
Mortgages at S & L Assns.	bil. $	531.9	538.4	543.2	553.8	555.6	555.6

chemicals, machinery, and construction industries than was previously anticipated.

Consumer loan totals have been expanded a bit in the data here for 1982 and 1983 mainly because of the revised forecasts for auto loans in those years.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES

(Table 1.80 on page 25)

For the current year, KEDI agrees with the majority of economists in the view that interest rates will be declining. The forecast of interest rates here shows a gradual decline during the rest of this year and throughout 1982. An upward trend will begin again in 1983 and 1984.

KEDI is not as optimistic, for example, as Morgan Guaranty spokesperson that spoke of seeing the federal funds rate dropping to the 15-16 percent range by July. Also, KEDI does not forecast that rate as possibly moving down to 14 percent by September as did an economist for a leading San Francisco bank. On the other hand, this Institute is not as pessimistic as a Chase Manhattan spokesman that cautioned people about the record high interest rates still to come this year. Also, KEDI does not agree with Henry Kaufman of Salomon Brothers that interest rates may fall for a short time but soar to new peaks in the next 12 months. (The Wall Street Journal, June 26, 1981.)

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	15.21	15.04	14.52	14.79
Prime Rate	%	15.10	19.21	18.96	19.04	18.31	18.88
Mortgage Rate, New Homes	%	12.96	14.46	14.68	14.41	14.09	14.41
Aaa Bonds Rate	%	11.96	13.52	13.56	13.49	13.31	13.47
Long Term Govt. Bonds Yield	%	11.39	12.74	12.98	12.79	12.64	12.79
Standard & Poor's 500 Average	1941-43 =10	118.71	133.79	133.86	132.27	133.46	133.35

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.79	14.07	13.69	12.98	12.56	13.33
Prime Rate	%	18.88	17.81	17.40	16.89	16.68	17.20
Mortgage Rate, New Homes	%	14.41	13.72	13.81	13.69	13.60	13.71
Aaa Bonds Rate	%	13.47	12.80	12.02	11.56	11.28	11.92
Long Term Govt. Bonds Yield	%	12.79	12.58	12.72	12.84	13.14	12.82
Standard & Poor's 500 Average	1941-43 =10	133.35	132.85	133.49	134.96	136.85	133.54

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.33	12.61	12.72	12.64	12.87	12.71
Prime Rate	%	17.21	16.30	16.01	16.11	16.40	16.21
Mortgage Rate, New Homes	%	13.71	13.36	13.51	13.59	13.48	13.40
Aaa Bonds Rate	%	11.92	11.12	11.54	11.66	11.90	11.56
Long Term Govt. Bonds Yield	%	12.82	12.98	12.56	11.02	11.84	12.10
Standard & Poor's 500 Average	1941-43 =10	133.54	137.02	135.43	134.58	137.82	136.21

* Historical Data

As can be seen in Table 1.80 on page 25, KEDI expects that interest rates will gradually move downward. The prime rate expected here for December, 1981, is in the 17-18 percent range, and the mortgage rate anticipated is 15.5 percent. For the end of 1982, a prime rate of 15-16 percent is expected and the mortgage rate will be slightly lower in the 14.5 percent range.

The forecast for stock market activity remains essentially unchanged, as measured by Standard & Poor's 500 average.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Income in Current dollars for the first quarter of 1981 has been selected for comparison. Actual figures are in the Survey of Current Business, p. 16 (U.S. Department of Commerce, Washington, D.S., Vol. 61, No. 4, April 1981). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, Chase Econometrics, Morgan Guaranty, and KEDI were closest to the mark.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

PERSONAL INCOME

(First quarter 1981, bill. current $, S.A.A.R.)

Actual: 2,317.7

Forecaster:	Page of Business Forecasts 1981:	Forecast:	% of Accuracy:
Georgia State University	23	2,245.8	-3.1
The First National Bank of Chicago	24	2,264.0	-2.7
UCLA	27	2,256.7	-2.4
Standard & Poor's Corporation	31	2,249.0	-3.0
Data Resources, Inc.	32	2,260.8	-2.5
KEDI	33	2,298.4	-.8
Fidelity Bank	34	2,278.7	-1.7
Morgan Guaranty	35	2,305.8	-.5
Chase Econometrics	36	2,308.5	-.4

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KEDI ECONOMIC SURVEY

AUGUST 1981 ISSUE



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AUGUST 1981 ISSUE

President: Vladimir J. Simunek

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1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

As compared with recent forecast's by this Institute, this one differs in two major areas:

1. Slower growth of the economy in the third and fourth quarters of 1981,,
2. slightly reduced growth throughout 1982.

There are only small changes for the 1983-85 years.

In terms of growth rates, unemployment, and inflation, the projection is as follows (percent over the previous year for growth and inflation):

	GNP, const. 72$	Inflation Rate	Unemployment Rate
1981	2.1	9.8	7.5
1982	3.0	9.3	7.4
1983	4.4	9.0	6.8

What is the reason for the change? The answer is found, basically, in the monetary and credit policies of those with the power to influence such matters. It has been assumed here that such policies would be fairly restrictive (see Assumption No. 3). However, now it is assumed that they will be quite restrictive, and will last longer in such tightness than had been predicted in prior issues.

For example, it was assumed in the last forecast that the prime rate would gradually decline to the 17-18 percent range by the end of this year and more significantly in the second half of 1982. Now, KEDI assumes the prime rate will be around 18-19 percent at the end of this year, and 17 percent at the end of 1982. Correspondingly, the monetary growth for 1981 has been reduced from 3.5 to 3.0 percent

for 1981 and from 4.3 to 4.1 percent in 1982.

Still, as the projection shows, growth anticipated this year by this Institute does come to 2.1 percent. It will be unbalanced due mainly to depressed housing and related industries, and automobiles and related industries. There will be a lack of even quarterly growth, but there will not be any deep dip such as the one in March-June, 1980.

Some forecasters, for example Merrill Lynch Economics, Inc., talk about recession in the second and third quarter of this year. By generally accepted understanding among economists, recession takes place if GNP declines for two consecutive quarters. Still, last year, the economy was described as being in a recession for part of the year, BUT ONLY ONE QUARTER, the second one of 1980, has a decline in GNP. KEDI leaves it to the wise men in the National Bureau of Economic Research, as to whether they will describe the middle quarters of this year as a recession or something like a lull or temporary slowing.

The outlook here is not as optimistic as that of the Treasury Secretary, Donald Regan. He indicated that in 1982 there will be recovery lead by stronger auto and housing sales, lower inflation and interest rates. KEDI does not expect too much from 1982--real growth of 3 percent forecast. In 1983, with growth calculated at 4.4 percent, the description of healthy growth is more likely to fit.

Mr. Regan also expressed the view that interest rates would fall to about 9 percent in 1982 as the Administration is projecting. This Institute expects that double digit interest rates will prevail for the next few years; likely through the middle of the decade.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No. 1, No. 2, and No. 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $38-39; in 1983, to $41 per barrel; in 1984, to $45 per barrel; and in 1985, $50 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. It is assumed that the 5 percent Federal income tax cut will be inacted

effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britain	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The August 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1512.2	1557.4	1742.1
Index of Industrial Production	1967 =100	147.1	152.7	158.4	186.3
Capacity Utilization	%	78.7	80.3	83.3	86.7
Unemployment Rate	%	7.2	7.5	7.4	6.2
Private Housing Starts	mil. units	1.303	1.184	1.255	1.794
Car Sales	mil. units	9.1	9.8	10.1	11.2
Implicit GNP Price Deflator	1972 =100	177.4	193.0	207.9	251.3
Consumer Price Index	1967 =100	246.7	270.8	295.9	372.4
Producer Price Index	1967 =100	269.8	293.9	318.0	386.5
Federal Deficit	bil. $	-61.2	-48.7	-31.9	-16.4
Personal Income	bil. $	2160.2	2380.0	2623.1	3716.8
Prime Rate	%	15.10	19.30	17.63	12.26
Mortgage Rate	%	12.96	14.93	14.37	11.27
Currency plus Demand Deposits	bil. $	377.1	367.7	389.1	460.5
Commercial and Industrial Loans	bil. $	324.9	346.2	371.1	424.8

1.10 REAL GROWTH
(Table 1.10 on page 8)

Following the 8.6 percent annual rate of growth in the first quarter, the economy showed a drop of an adjusted 1.9 percent in the second quarter. That was the first quarterly drop since the second quarter of 1980.

KEDI agrees with Albert Sommers, the chief economist at the Conference Board. He referred to the economy as one of stagflation, and did not see a threat of recession. There are growing signs of the slowing.

First, the Index of Industrial Production shows that the decline or standstill is spreading from construction and housing to machinery and equipment. The decline would be worse than what was shown in the second quarter if it had not been for the rebound in coal production and the large energy outputs by the utilities due to the long hot spell in most of the country.

Secondly, the nation's factories were operating at an adjusted 79.6 percent of capacity in June, down slightly from the May level of 80.1 percent. That was the first drop since the second month of this year. The decline was widespread and most sharp for producers of iron and steel, paper, and machinery.

Third, both building awards and building outlays dropped in May. Early indications show that the fall will continue in subsequent months.

Building outlays went down by 4.7 percent in May--the fourth consecutive month of declines. As compared to spending in this area in May of 1980, it was 7.1 percent higher, but that May was the pits. Private construction was down by 3.1 percent and public building dropped by 9.9 percent. Building awards were off by 7 percent from the prior month's level.

Fourth, leading economic indicators were off by 1.8 percent in May. The index had increased in April and in March. The May decline put the index at 135.2 percent of the 1967 average. Of the 10 components available, nine of them were down. The only one that did not move downward was the average workweek.

Fifth, car sales fell by 2.7 percent in June. The drop in sales of domestic cars negated the gain in the sales of imported autos. It was the worst June in 23 years on a daily selling-rate base. Sales had gone up in early June, but a mid-month drop came as a surprise to many in the industry.

In July, auto sales continued the slide down. The first 10-days of July showed U.S. car sales down 18 percent.

Sixth, in order to cut inventories, auto makers lowered their production plans for the third quarter. For July, the plans were to build 24 percent more cars than had been built a year ago, but 40,000 fewer than were expected to be sold.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1509.1	1507.2	1516.1	1512.2
Index of Industrial Production	1967=100	147.1	151.8	152.6	152.5	153.9	152.7
Unemployment Rate	%	7.2	7.3	7.4	7.6	7.6	7.5
Capacity Utilization Rate	%	78.7	79.9	80.1	80.1	80.9	80.3
Private Housing Starts	mil. units	1.303	1.361	1.171	1.086	1.117	1.184
Car Sales	mil. units	9.1	10.2	9.7	9.6	9.8	9.8

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1512.2	1530.6	1548.4	1565.3	1585.4	1557.4
Index of Industrial Production	1967=100	152.7	155.4	157.1	159.1	161.8	158.4
Unemployment Rate	%	7.5	7.5	7.5	7.3	7.2	7.4
Capacity Utilization Rate	%	80.3	81.4	82.9	83.9	85.5	83.3
Private Housing Starts	mil. units	1.184	1.090	1.202	1.366	1.364	1.255
Car Sales	mil. units	9.8	9.9	9.7	9.9	10.7	10.1

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1557.4	1604.2	1621.5	1641.6	1666.5	1633.4
Index of Industrial Production	1967=100	158.4	166.5	169.5	173.4	175.4	171.2
Unemployment Rate	%	7.4	7.0	6.9	6.8	6.5	6.8
Capacity Utilization Rate	%	83.3	86.0	86.5	87.5	88.3	87.1
Private Housing Starts	mil. units	1.255	1.356	1.622	1.805	1.732	1.629
Car Sales	mil. units	10.1	10.2	10.0	10.5	11.0	10.4

* Historical Data

There has been some good news, but not a lot. Still, such areas as strength in retail sales point to conditions not being all negative by any means. (Like the British, many Americans are escaping from assorted woes and financial worries by turning to tradition and some trivia, grandeur and some grappling in the British royal wedding and events surrounding it.)

Back to the business of the common folk whose buying helped end the sales slump that had hit U.S. retailers in the spring. Retail sales rose a seasonally adjusted 1.2 percent in June. There had been declines in the previous two months. Sears, and K-Mart, for instance, had gains aver 17 percent in sales as compared to the year-earlier figure.

1.20 PRICES

(Table 1.20 on page 12)

KEDI's forecast concerning price developments remains essentially unchanged as compared with previous issues. The calculations here of price increases for 1981 is close to that of the Administration in terms of viewing the slower rate of June as being only a temporary slackening. Double digit rates are anticipated in the latter half of the year. Rising prices for beef, housing, and medical and transportation services are seen as major causes for the renewal of higher rates.

Other reasons that this Institute expects high inflation rates follow: It is anticipated here that the decline in prices of raw materials will turn around by the end of the year. Since December of 1980, such prices have dropped sharply. The price of gold has come down from the stratosphere by 36 percent; copper, down 18 percent; wheat has declined by 27 percent; and coffee, 15 percent.

The U.S. economy will begin to recover from the current sluggish pace around the end of the year. That will bring increased demand in industry and consequently, renewed pressure on prices.

KEDI agrees with Chase Econometrics that prices will go up, but it is not calculated here that the move to increased gains will occur as early as they expect. Chase sees third quarter inflation well above a 10 percent annual rate.

The Administration is predicting that there will be an average of a 9.9 percent increase in consumer prices this year as compared to the 13.5 percent hike in 1980. KEDI forecasts the rate at 9.8 percent average this year. So, there is agreement here whereas, a few months ago, their rate was somewhat lower and the rate predicted here was a bit higher.

By the end of the year, the price of oil will begin to go up again. The basic structure of prices, as dictated by OPEC at their meeting in May has not been changed. The "glut" will begin to ease and prices will firm--not that the consumers have seen much benefit from it.

In June, Consumer Prices went up an adjusted 0.7 percent, or a rate of 8.4 percent annually before compounding. The annual rate of inflation in the first quarter was 9.6 percent and the second quarter rate was estimated at 7.4 percent compounded.

For 1982 inflation expected has been revised here to 9.3 percent over the current year. The reasons that next year is seen as having only slightly lower inflation rates fall into three basic areas. First, the economy in this country will expand more rapidly next year than will be true for the current year: 3.0 percent as compared with 2.1 percent anticipated for this year. That will bring stronger demand and upward pressures on prices.

The union contract negotiations will add to ongoing price pressure. Rubber, automobiles, machinery industries are expected to be negotiating for 10 percent wage increases.

Energy prices will still gain--around 10 percent for oil, 7 percent for electricity, 10 percent for coal, and 9 percent for natural gas.

The 1981-1983 expected price increases are shown in the following table:

	1981	1982	1983
Consumer Price Index (1967=100)	9.8	9.1	9.0
Producer Price Index (1967=100)	8.9	8.3	9.7
Implicit GNP Price Deflator (1972=100)	8.8	7.7	7.6

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	268.8	273.4	278.2	270.8
Producer Price Index, NSA	1967=100	269.8	287.3	291.0	296.5	300.7	293.9
Implicit GNP Price Deflator	1972=100	177.4	188.1	190.4	194.3	198.6	193.0
Gross National Product	bil. $	2626.1	2853.0	2881.0	2928.8	3010.9	2918.4
Personal Consump Expenditures	bil. $	1672.8	1810.1	1830.3	1850.2	1895.0	1846.4
Gross Private Dom. Investment	bil. $	395.3	437.1	453.8	465.1	479.8	459.0

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	270.8	286.5	291.3	298.0	306.5	295.6
Producer Price Index, NSA	1967=100	293.9	307.9	314.3	320.7	338.9	318.0
Implicit GNP Price Deflator	1972=100	193.0	202.3	206.1	209.8	213.5	207.9
Gross National Product	bil. $	2918.4	3096.6	3190.9	3284.4	3384.5	3239.1
Personal Consumpt Expenditures	bil. $	1846.4	1930.0	1981.5	2044.8	2100.4	2014.2
Gross Private Dom. Investment	bil.$	459.0	498.2	514.4	525.9	547.1	521.4

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Consumer Price Index, NSA	1967=100	295.6	312.9	319.2	326.4	332.0	322.6
Producer Price Index, NSA	1967=100	318.0	336.5	345.2	353.7	359.8	348.8
Implicit GNP Price Deflator	1972=100	207.9	217.1	220.5	226.8	231.5	224.0
Gross National Product	bil. $	3239.1	3482.9	3575.2	3722.8	3857.7	3659.7
Personal Consump Expenditures	bil. $	2104.2	2156.3	2211.4	2328.7	2436.1	2298.7
Gross Private Dom. Investment	bil. $	521.4	568.8	387.6	599.9	610.8	591.8

*Historical Data

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The forecast here for the unemployment rate has been slightly increased: We are close with the Administration's projection of 7.6 percent. Some forecasters write of this rate as being closer or above 8 percent. That is just too high according to calculations here.

KEDI's projection is that the unemployment rate will gradually improve next year. During 1983, the rate will move below 7 percent.

Forecasts of average workweek and overtime factory payrolls remain essentially unchanged when compared with previous projections.

Quarterly Averages: Workweek and Overtime

	Workweek Hours	Overtime Hours		Workweek Hours	Overtime Hours
1981: 1	35.4	2.9	1982: 1	35.9	3.1
2	35.4	3.0	2	36.0	3.3
3	35.4	3.9	3	36.2	3.3
4	35.8	3.1	4	36.5	3.5

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	98.9	99.5	98.7
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.5	96.2	95.4
Unemployment Rate	%	7.19	7.34	7.37	7.63	7.57	7.45

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.7	100.2	100.9	101.9	102.7	101.5
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	96.8	97.5	98.6	99.4	98.1
Unemployment Rate	%	7.45	7.48	7.46	7.30	7.21	7.23

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.5	104.0	105.2	105.7	106.8	105.5
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.1	100.7	101.8	102.4	103.4	102.1
Unemployment Rate	%	7.23	7.02	6.91	6.80	6.52	6.72

* Historical Data

1.40 HOUSING
(Table 1.40 on page 16)

The forecast here for housing has been revised downwards. First, a basic reason for this change lies with the mortgage rates. As compared with the previous forecast, mortgage rates are approximately 0.5 percent higher for the rest of 1981 and for 1982 than had been previously anticipated.

Secondly, the data for June was a bit lower than had been forecast here earlier. Housing starts in June went down to a seasonally adjusted rate of 1.032 million units from the revised rate of 1.159 million for May. Also, permits issued were at a lower rate than had been forecasted earlier.

Forecast for 1982 shows that housing will be in better shape than this year. However, the expected increase will not be dramatic, approximately 5-10 percent above the 1981 level. For 1983 a significant increase of 20-30 percent in housing starts is expected.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.773	.695	.712	.757
Multifamily Housing Starts	mil.	.473	.511	.398	.391	.405	.426
Mobile Home Shipments	mil.	.222	.248	.276	.280	.249	.263
Housing Permits Issued	mil.	1.117	1.167	1.146	.948	.937	1.050
Construction Costs-Commerc.	1972=100	198.5	208.7	214.5	217.9	225.9	216.8
Construction Costs-Resident.	1972=100	198.6	209.5	215.0	217.2	226.0	216.9

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Single-Family Housing Starts	mil.	.757	.681	.734	.865	.848	.782
Multifamily Housing Starts	mil.	.462	.409	.468	.501	.516	.473
Mobile Homes Shipments	mil.	.263	.264	.292	.324	.336	.304
Housing Permits Issued	mil.	1.050	1.095	1.303	1.386	1.495	1.320
Construction Costs-Commerc.	1972=100	216.8	231.9	242.0	249.0	254.0	244.2
Construction Costs-Resident.	1972=100	216.9	229.5	239.1	239.1	242.5	251.0

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Single-Family Housing Starts	mil.	.782	.826	.947	1.103	1.089	.991
Multifamily Housing Starts	mil.	.473	.530	.675	.702	.643	.673
Mobile Homes Shipments	mil.	.304	.351	.364	.389	.356	.365
Housing Permits Issued	mil.	1.320	1.344	1.651	1.718	1.692	1.601
Construction Costs-Commerc.	1972=100	244.2	258.2	266.1	273.1	281.8	269.8
Construction Costs-Resident.	1972=100	240.5	253.4	266.5	272.0	277.6	267.4

* Historical Data

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 18)

The review of the economy, released in July by the Administration shows that the outlays by the federal government for fiscal 1981 are very close to those projected by KEDI in June (See the last issue, page 18.) The Administration forecast is for $704.8, and KEDI used a figure of $704.9.

There is a larger difference in the forecast of receipts. Last month this Institute predicted that receipts for fiscal year ending September 30, 1982, would be $667.5 billion, as compared with the Administration's figure of $662.4. This month, due to the change in Assumption No. 3, the forecast of receipts had been reduced by $3.4 billion, mainly due to the lower rate of growth and resulting lower income tax and corporate tax receipts.

Although the two forecasts are close, they are based on different assumptions. Whereas the thinkers in the White House assume faster growth in 1982 over this year along with lower inflation and interest rates, KEDI is not so optimistic. There is agreement on the unemployment rate:

1982 FORECASTS

	Administration	KEDI
Real Growth	+3.4%	+3.0%
Consumer Price Index	+7.0%	+9.1%
Unemployment Rate	+7.6%	+7.5%
3 month Treasury Bill Rate	+10.5%	+14.3%

The forecast for State and Local Budgets remains essentially unchanged.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	292.0	299.5	301.3	294.0
Corporate Profit Tax Accruals	bil. $	70.1	77.9	81.2	85.0	93.1	84.3
Surplus./Deficit	bil. $	-61.2	-43.4	-50.5	-49.8	-51.3	-48.7
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	90.4	92.8	93.8	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.2	15.0	16.1	17.6	15.5
Surplus./Deficit	bil. $	29.1	37.0	38.6	39.0	36.1	37.7

Indicator	Unit	1981	1982				1982
			1 *	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	294.0	308.9	317.6	319.0	329.1	318.7
Corporate Profit Tax Accruals	bil. $	84.3	100.1	107.2	110.9	123.0	110.3
Surplus./Deficit	bil. $	-48.7	-37.2	-29.7	-31.4	-27.2	-31.9
State and Local Governments:							
Income Taxes	bil. $	91.4	96.2	100.1	103.0	105.2	101.3
Corporate Profit Tax Accruals	bil. $	15.5	18.2	19.9	20.5	22.3	20.2
Surplus./Deficit	bil. $	37.7	34.7	35.0	34.0	32.1	34.0

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.7	338.2	350.6	356.9	368.7	353.6
Corporate Profit Tax Accruals	bil. $	110.3	130.2	137.0	141.6	148.3	139.2
Surplus./Deficit	bil. $	-31.9	-29.2	-24.1	-30.6	-22.1	-26.5
State and Local Governments:							
Income Taxes	bil. $	101.3	107.9	112.1	114.1	116.4	112.6
Corporate Profit Tax Accruals	bil. $	20.2	22.9	24.6	25.8	27.8	25.3
Surplus./Deficit	bil. $	34.0	31.5	31.8	33.5	34.9	32.9

* Historical Data

1.60 INCOME

(Table 1.60 on page 20)

Forecasts for personal income, its components, and corporate profits have been slightly reduced due mostly to the rippling restrictive results of the interest rates remaining at higher levels than had been anticipated here. This was covered in the Overview section.

The projection of percapita real disposable income shows that it will remain basically flat this year and next. Improvement is not expected any earlier than 1983. On the bright side, if there are any declines in 1981 or 1982 in these figures, they will be minute. Per capita personal disposable income (in thousands of dollars) as calculated by KEDI are given here:

1980	1981	1982	1983	1984	1985
4.571	4.614	4.621	4.684	4.805	4.912

The projection for corporate profits has been reduced somewhat due to the lowering of the level of profits of financial institutions, the additional reduction in the construction industry, appliances, aerospace, and machinery in 1981 and 1982.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2363.8	2386.0	2450.5	2380.0
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.4	2008.5	2061.2	2001.0
Compensation of Employees	bil. $	1596.5	1722.4	1765.9	1785.9	1817.5	1772.9
Corp. Profits After Tax	bil. $	163.1	168.0	170.0	179.6	187.3	176.4
Personal Saving	bil. $	101.3	88.9	106.0	104.3	112.3	102.9
Average Weekly Earnings	$	297.4	310.7	315.9	320.4	326.2	318.3

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Personal Income	bil. $	2380.0	2517.9	2579.8	2659.4	2735.4	2623.1
Personal Dispos. Income	bil. $	2001.0	2112.8	2162.0	2236.8	2301.1	2203.2
Compensation of Employees	bil. $	1772.9	1834.0	1880.4	1941.6	1989.9	1911.5
Corp. Profits After Tax	bil. $	176.4	189.5	196.7	201.4	206.8	198.6
Personal Saving	bil. $	102.9	107.5	108.4	117.3	115.6	112.2
Average Weekly Earnings	$	318.3	331.9	336.4	342.1	348.9	339.8

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Personal Income	bil. $	2623.1	2808.1	2881.9	3017.2	3120.9	2957.0
Personal Dispos. Income	bil. $	2203.2	2362.0	2419.2	2546.2	2635.8	2490.8
Compensation of Employees	bil. $	1911.5	2032.3	2079.3	2189.8	2271.0	2143.1
Corp. Profits After Tax	bil. $	198.6	214.7	216.8	221.2	227.6	220.1
Personal Saving	bil. $	112.2	119.7	118.6	121.3	132.4	120.8
Average Weekly Earnings	$	339.8	355.7	363.8	369.5	377.2	366.6

*Historical Data

1.70 MONEY AND CREDIT

(Table 1.70 on page 22)

The restrictive Federal Reserve monetary policy was again confirmed at the July meeting of its Open Market Committee. At that time, it was disclosed that targets for M1B had been lowered. They are now aiming for a 2.5 to 5.5 percent range for growth in M1B between the last quarter of 1980 and the final quarter of 1981. That is a decline from the 6.75 percent growth in 1980. KEDI, as was mentioned in the Overview forecasts monetary growth at 3 percent in 1981. Repeated here is a statement by KEDI from page 22 of the June, 1981 issue: "The assumption that the Fed's policy will remain tight for this year and next year is maintained. There will not be any more apparent relaxation before 1983."

In line with the Assumption No. 3 here and with the reduction of growth rates anticipated in various parts of the economy, this Institute expects only a slow growth of demand for commercial and industrial loans in the next quarters.

KEDI's forecast of the main categories of consumer credit, as automobile and other consumer durables, remains essentially unchanged when compared with the previous forecast.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.1	368.3	364.1	367.7	370.7	367.7
Time Deposits, Adjusted, M2	bil. $	1597.4	1698.2	1727.8	1750.9	1771.3	1737.1
Consumer Instal. Credit	bil. $	313.4	310.8	314.9	323.8	331.9	331.9
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	335.8	340.1	346.2	246.2
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.5	141.0	146.0	146.0
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.0	508.1	510.4	510.4

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	367.7	380.0	386.5	391.2	398.7	389.1
Time Deposits, Adjusted, M2	bil. $	1737.1	1794.3	1812.8	1847.3	1883.5	1834.5
Consumer Instal. Credit	bil. $	331.9	338.4	343.6	351.8	358.9	358.9
Commerc. & Industr. Loans at Banks	bil. $	346.2	351.7	355.6	363.2	371.1	371.1
Negotiable Cert. of Deposits	bil. $	146.0	150.1	153.8	160.0	164.3	164.3
Mortgages at S & L Assns.	bil. $	510.4	514.0	520.6	523.7	533.1	533.1

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	389.1	409.2	418.5	423.7	430.6	420.5
Time Deposits, Adjusted, M2	bil. $	1834.5	1910.2	1948.7	1994.3	2046.7	1975.0
Consumer Instal. Credit	bil. $	358.9	365.7	374.1	382.9	387.1	387.1
Commerc. & Industr. Loans at Banks	bil. $	371.1	375.4	388.2	391.3	396.4	396.4
Negotiable Cert. of Deposits	bil. $	164.3	167.5	172.3	175.8	177.6	177.6
Mortgages at S & L Assns.	bil. $	533.1	540.1	545.3	555.9	558.4	558.4

*Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

The forecast by KEDI for high interest rates for the rest of the year is maintained, although they are now seen as being higher than what had been calculated in past issues.

The Wall Street Journal of July 7, 1981, published the forecasts of others in this field for the prime rates expected at year-end and including those which were first published at the beginning of January.

	Forecast made in January 1981 for year-end prime rate	Latest Forecast
Alan Greenspan	10-12	17
Manufacturers Hanover	11	15
Merrill Lynch	13-14	15½-16½
Data Resources	15	16½
Bank of America	14	14-16

The figure published by KEDI in the December, 1980, issue for the prime rate at the end of this year was 14.15 percent (see table 1.80, page 37 of that issue). There are no indications that the high interest rates will decline significantly in the foreseeable future. At the present time this Institute sees the year-end prime rate as more likely to be about 18-19 percent at the end of the year (see table 1.80), due to the continued tight grip on money and credit the Federal Reserve is exerting.

There is a clear trend of interest rates very gradually edging downward--at a confused snail's pace. KEDI expects the lowest point for the prime

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	15.74	15.56	15.19	15.22
Prime Rate	%	15.10	19.21	18.95	19.81	19.24	19.30
Mortgage Rate, New Homes	%	12.96	14.46	14.81	15.32	15.11	14.93
Aaa Bonds Rate	%	11.96	13.52	14.72	15.24	14.89	14.59
Long Term Govt. Bonds Yield	%	11.39	12.74	13.43	13.96	13.82	13.49
Standard & Poor's 500 Average	1941-43 =10	118.71	133.79	132.65	130.80	132.24	132.37

Indicator	Unit	1981	1982				1982
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	15.22	14.48	14.54	14.02	13.73	14.32
Prime Rate	%	19.30	18.56	17.83	17.19	16.95	17.63
Mortgage Rate, New Homes	%	14.93	14.91	14.67	14.03	13.87	14.37
Aaa Bonds Rate	%	14.59	14.57	14.09	13.52	13.14	13.83
Long Term Govt. Bonds Yield	%	13.49	13.75	13.58	13.25	13.11	13.42
Standard & Poor's 500 Average	1941-43 =10	132.37	133.08	134.69	136.02	137.14	135.23

Indicator	Unit	1982	1983				1983
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.32	13.22	12.97	12.87	13.14	13.05
Prime Rate	%	17.63	16.54	16.41	16.23	16.58	16.44
Mortgage Rate, New Homes	%	14.37	13.64	13.56	13.62	13.75	13.64
Aaa Bonds Rate	%	13.83	12.67	12.02	11.97	12.34	12.25
Long Term Govt. Bonds Yield	%	13.42	12.73	12.21	11.84	11.90	12.17
Standard & Poor's 500 Average	1941-43 =10	135.23	137.56	136.42	143.41	138.11	136.59

* Historical Data

rate in 1982 will be about 15-16 percent. That will likely be reached around mid-year and then will move up again. The upward move will continue in 1983, and there will be some more decline in 1984.

Forecasts of the stock market remain essentially unchanged.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Index of Industrial Production for the second quarter of 1981 has been selected for comparison. Actual figures are in the FEDERAL RESERVE, Industrial Production, G. 12.3, July 15, 1981 issue Table 1A (Board of Governors of the Federal Reserve System, Washington, D.C.). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, Chemical Bank, and KEDI were closest to the mark.

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Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

INDEX OF INDUSTRIAL PRODUCTION

(Second quarter 1981, 1967=100, S.A.A.R.)

Actual: 152.6

	Page of Business Forecasts 1981:	Forecast	% of Accuracy:
American Statistical Association and National Bureau of Economic Research	21	147.0	-3.7
Ameri Trust	22	143.4	-6.0
The First National Bank of Chicago	24	146.6	-4.0
Manufacturers Manover Trust Co.	25	145.1	-5.0
Chemical Bank	26	150.4	-1.4
UCLA	27	146.8	-3.8
WGN Continental Broadcasting Co.	29	144.0	-5.6
Cyrus J. Lawrence	29	147.1	-3.6
Bankers Trust Company	30	147.7	-3.8
Standard & Poor's Co.	31	145.5	-4.7
Data Resources, Inc.	32	144.3	-5.4
KEDI	33	150.4	-1.4
Fidelity Bank	34	147.7	-3.2
Morgan Guaranty	35	147.6	-3.3

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KEDI ECONOMIC SURVEY

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President: Vladimir J. Simunek

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	The unemployment rate forecast for the latter part of this year has been reduced slightly. However good that bit of news is, it does not change the forecast for 1982 and beyond.	

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1.40 HOUSING 17

A bit of joy for some builders-housing starts edged up in July. So called "bargain" homes are selling well in the Southwest. (Some can call such new homes cheap and tiny. Others can view them as efficient and economical.)

1.50 BUDGETS 20

The forecast here is maintained. The Administrative view of a balanced budget for 1984 is now seen by even those in the White House as quite unattainable without some added severe cuts. It is doubtful that the minimum added carving out of $40 billion in the next few years would be approved by Congress.

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The forecast data for personal income remains the same. However, after-tax corporate profits for this year are lowered. Calculations for subsequent years are not altered.

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The forecast of tight money remains with us.

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KEDI sees the current prime rate as moving down a bit to 18-19 percent by year's end--not 15 percent as has been verbalized in Washington. Interest sensitive areas of the economy will continue to have problems, while other sectors enjoy growth.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 29

In this issue, forecasts of the Personal Income in curr. $ for the second quarter 1981 have been selected for comparison.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The outlook as seen by KEDI for this year remains the same: 1981 will be a slow year with output of goods and services increasing by approximately 2 percent over the prior year. The government plans have been enacted for income tax cuts, federal budget cuts, and new depreciation rules. In the years ahead these changes will have a positive effect on the economy. The plans of the government are feasible, although the goals that are set by the Administration are viewed here as not quite attainable.

This Institute se s 1982 as a year when the economy will begin to move ahead and pick up steam in the following two years. As compared to each prior year, 1982 should have growth of 3 percent; 1983, 3.4; and 1984, 4 percent. That is a fairly good performance, but the figures are less high than those of the Administration. For example, their estimate for 1983's growth in real GNP is 5 percent.

In the 1981-82 period, the fastest growth will be in mining, defense, electronics, chemicals, plastics, aerospace, energy exploration and related industries. Housing, construction and related sectors, and autos will remain sluggish. However, by the 1983-84 years, there will be more balanced growth with less troubles for housing and construction.

There is a range of opinion among other forecasters. Like KEDI, most private forecasters see the White House projections as too optimistic. Chase Econometric was using figures of 4.1 percent for real growth in 1983 and inflation at 8 percent before the final approval by Congress of the tax cuts in late July. That forecast will be increased just a bit in terms of economic growth according to Lawrence Chimerine, but will remain under the level foreseen in Washington.

The former chairman of President Carter's Council of Economic Advisers, Charles Schultze, sees that the changes will have a net result of more sluggishness. Output won't grow as much as the Administration hopes according to him. That is agreed with here but KEDI's forecast of growth rates of 3-4 percent in 1983 and 1984 are not defined as sluggish.

The vice chairman of the Federal Reserve Board sees the economic program of the Administration as being presented in too optimistic a manner. According to The Wall Street Journal (July 31, page 1) Frederick Schultz views the net results of the tax cuts and the defense increases as heating up the economy and adding to pressures that keep interest rates and inflation rates high.

On the other hand, the chief economist at Kidder, Peabody & Co., Sam I. Nakagama, sees the tax cut as being the wrong kind with the results being prolonged stagnation. In his view, Congress

has approved bills that will do too much to stimulate consuming and not enough to increase business investment.

As was stated earlier, KEDI views the recent changes in a positive light. The tax cuts, new depreciation, and curtailed federal spending will benefit the economy. The extent of the benefits will just not be as extensive as Reagan has been proclaiming. (Perhaps, like advertising agencies, a little too much "hype" can be understood, but it should not be presented as anticipated fact.)

The price forecast that has come out of Washington is one that comes up with lower numbers than KEDI does for inflation rates after this year. Their view is that inflation will abate posthaste and drop down to the 5 percent range by 1984. KEDI calculations show that inflation will decline from last year's pace of over 13 percent, but it will not slow so quickly. The rate, for instance, in 1984 is expected to be in the range of 8 percent not around 5 percent. As far as this year is concerned KEDI and the Administration are in general agreement. The change in the CPI is forecast at 9.8 by us and 9.9 by them.

There is also agreement between this Institute and the Administration on the subject of the employment picture. There will be improvement in this area over the next few years with the rate dropping from current levels averaging around 7.6 percent to approximately 6.8 percent in 1984.

As to interest rates, the Administration sees the rates over the next few years as being lower than KEDI. Here, the prime rate for 1983 is forecast in the 15-16 percent range and mortgage rates are viewed as averaging 12-13 percent. The rates forecast in the nation's capitol are not quite that high.

KEDI's projection of federal deficits shows, that in fiscal 1984 the federal budget will still be in the red by approximately 16-18 billion dollars. The Administration sees a balanced budget at that time. KEDI's calculations show, that additional budget cuts of at least $40 billion are needed to achieve the balance at that time.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumption No. 4.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $38-39; in 1983, to $41 per barrel; in 1984, to $45 per barrel; and in 1985, $50 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. Increases in state and local taxation in 1981-85 are anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britian	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The September 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1511.9	1555.5	1741.5
Index of Industrial Production	1967 =100	147.1	152.8	158.0	186.0
Capacity Utilization	%	78.7	80.1	83.1	86.2
Unemployment Rate	%	7.2	7.4	7.4	6.2
Private Housing Starts	mil. units	1.303	1.184	1.250	1.786
Car Sales	mil. units	9.1	9.0	9.7	11.2
Implicit GNP Price Deflator	1972 =100	177.4	193.0	208.1	252.8
Consumer Price Index	1967 =100	246.7	271.0	295.8	371.6
Producer Price Index	1967 =100	269.8	294.2	321.0	387.4
Federal Deficit	bil. $	-61.2	-48.8	-33.6	-16.9
Personal Income	bil. $	2160.2	2384.4	2612.5	3714.2
Prime Rate	%	15.10	19.46	17.95	12.31
Mortgage Rate	%	14.43	16.14	15.16	11.38
Currency plus Demand Deposits	bil. $	377.1	368.4	384.4	450.7
Commercial and Industrial Loans	bil. $	324.9	350.4	360.7	430.8

1.10 REAL GROWTH
(Table 1.10 on page 10)

In general, as compared with the forecast made last month, this one remains essentially unchanged. The projection shows NO SLUMP OR DECLINE in the coming months.

Some economists worry about the third and fourth quarters of this year and predict slowdowns and declines in the growth of the economy. The view here is that the latter half of this year will show some growth though it will not be spectacular. Recent economic news bears out this view.

First, retail sales have remained strong of late. There are no indications that they will decline during the rest of the year. Such sales gained by 1.3 percent in July following a rise of 1.7 percent in June. Much of the gain in July was attributed to a bit of recovery in auto sales from their very depressed second quarter level. Durable goods sales went up by 3.7 percent in July. Nondurable sales rose just 0.1 percent over the prior month.

Secondly, for the fifth month in a row, the confidence of consumers increased according to the Conference Board survey. Also, the Survey Research Center at the University of Michigan found its consumer sentiment index went up in the second quarter. That appears to reflect that more people view the economy as

improving in the future mainly due to the impact of Reagan's assorted packages.

Third, the unemployment rate dropped down in July to 7 percent. The forecast for the rest of the year does not show any high unemployment. Personal income will continue to rise and consumer demand will remain high. The unemployment rate for July was the lowest since April of 1980. Total employment rose by 570,000 jobs; a gain of 0.6 percent over June.

Fourthly, machine tool orders rose in June. Such orders went up by 35 percent from the prior month. As compared to June of 1980 they were 33 percent lower. Still, the May-June gain this year is important. Machine tools for defense and oil exploration and refinging are on the upswing. It is anticipated that July and August will show some declines in machine tool orders but that generally occurs in this field, and is not to be viewed as the start of a trend. June is a pivotal month for this industry. New orders here will again pick up in the last quarter of the year and gain strength in 1982.

Fifth, new orders for durable goods increased slightly in July. They went up to an adjusted total of $89.12 billion from the June level of $88.30 billion. The forecast here shows that such orders will remain strong during the rest of the year.

Sixth, KEDI's forecast shows that housing and related sectors have reached the bottom. They will not decline significantly any further. Granted, these areas have really had problems. It is looking on the bright side to say they have reached the bottom of the pit and will rest there before beginning a twisted trail toward the top over the next few years.

Productivity remains an area of concern. As Lester C. Thurow pointed out, between 1977 and 1980 blue collar productivity went up by 6 percent, but white collar productivity declined by 4 percent. There are 20 million more white collar workers than blue collar, so the result was a net drop. (Newsweek, August 24, 1981, page 63.) Productivity has been on the decline in this nation. Again, between the first and second quarter of this year, it went down by 1 percent.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1507.4	1507.9	1515.9	1511.9
Index of Industrial Production	1967=100	147.1	151.8	152.7	152.8	153.8	152.8
Unemployment Rate	%	7.2	7.3	7.4	7.3	7.4	7.4
Capacity Utilization Rate	%	78.7	79.9	80.1	79.9	80.5	80.1
Private Housing Starts	mil. units	1.303	1.361	1.167	1.094	1.115	1.184
Car Sales	mil. units	9.1	10.1	7.8	8.6	9.5	9.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1511.9	1529.2	1546.3	1563.4	1583.1	1555.5
Index of Industrial Production	1967=100	152.8	155.2	156.8	158.7	161.4	158.0
Unemployment Rate	%	7.4	7.4	7.4	7.3	7.2	7.4
Capacity Utilization Rate	%	80.1	81.3	82.7	83.2	85.0	83.1
Private Housing Starts	mil. units	1.184	1.095	1.196	1.354	1.356	1.250
Car Sales	mil. units	9.0	9.3	9.4	9.8	10.2	9.7

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1555.5	1603.2	1620.6	1641.8	1666.7	1633.1
Index of Industrial Production	1967=100	158.0	166.2	169.4	173.3	175.2	171.0
Unemployment Rate	%	7.4	7.0	6.9	6.8	6.5	6.8
Capacity Utilization Rate	%	83.1	85.7	86.3	87.1	87.9	86.8
Private Housing Starts	mil. units	1.250	1.350	1.612	1.811	1.738	1.628
Car Sales	mil. units	9.7	10.0	9.9	10.6	11.2	10.4

* Historical Data

1.20 PRICES
(Table 1.20 on page 13)

Although KEDI reduced its forecast of the expected rate of inflation earlier this year, the outlook here has been that the gain in prices would be higher than the Administration anticipates for 1982 through 1985. As compared to last month's publication by KEDI, the rate of inflation expected remains the same as measured by the Consumer Price Index and the Implicit GNP Price Deflator.

	1981	1982	1983
Consumer Price Index (1967=100)	9.8	9.1	9.0
Implicit GNP Price Deflator (1972=100)	8.8	7.9	7.7

Recent developments support the price outlook. Consumer prices went up 1.2 percent on a seasonally adjusted basis in July. That is a 14.4 percent annual rate before compounding and made it the largest month's gain in over a year. The gain was due mainly to rising food prices and the mortgage rates remaining at a high level. It is expected that the inflation rates will back down to single digit levels by late fall.

For the average U.S. city, the CPI was at 274.4 in July or 10.7 percent higher than in July of 1980. Some expensive areas to live, by this measure, are San Diego where the CPI was 305.4 (up 13.2 percent over the previous July), the Denver-Boulder area with a CPI of 294.2 (up 12.5 percent), and in mid-America Milwaukee with a CPI of 285.6 (a gain of 13.5 percent). Even the home of the troubled auto industry, Detroit had a rise of 11.6 percent in its prices to the 283.1 level.

Again, looking at the July annual rate of 14.4 percent, that makes the previous months seem relatively modest. The April annual rate was 4.8, May was 7.0, and June was 8.4 percent. Seemingly those months showed that inflation was declining. Now it is going up again and the KEDI view is that it will remain high.

During the rest of the year, home ownership costs will continue to be high due mainly to the mortgage rates which will not decline significantly. Food prices are seen here as on the rise for at least the next few months--especially beef and pork. (There is more than one reason for the growth in vegetarian and natural foods restaurants and cookbooks.) In August and September, the main increases will be in the cost of apparel and seasonal items such as increased tuition fees.

The forecast here is maintained for double digit inflation rates in the third quarter with some relief in the fourth quarter of 1981 for an overall average this year of 9.8 percent.

In July prices for finished goods rose by an adjusted 1.5 percent as opposed to the 0.5 percent gain in June. The KEDI forecast of producer prices remains essentially unchanged. The gains in these prices over the former year will range from 8.8 to 11.5 percent between this year and 1984.

The projection here is that the steady declines in the prices of industrial materials is coming to an end this year. They will

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981 1*	1981 2	1981 3	1981 4	1981
Consumer Price Index, NSA	1967=100	246.7	262.9	270.8	273.5	277.2	271.0
Producer Price Index, NSA	1967=100	269.8	287.3	291.7	296.6	301.0	294.2
Implicit GNP Price Deflator	1972=100	177.4	188.1	191.2	194.3	198.6	193.0
Gross National Product	bil. $	2626.1	2853.0	2881.6	2929.7	3010.7	2918.6
Personal Consump Expenditures	bil. $	1672.8	1810.1	1831.0	1865.5	1919.7	1856.6
Gross Private Dom. Investment	bil. $	395.3	437.1	455.8	459.3	466.6	454.7

Indicator	Unit	1981	1982 1	1982 2	1982 3	1982 4	1982
Consumer Price Index, NSA	1967=100	271.0	286.7	291.7	298.1	306.6	295.8
Producer Price Index, NSA	1967=100	294.2	307.9	315.4	322.5	340.7	321.6
Implicit GNP Price Deflator	1972=100	193.0	202.4	206.1	209.9	214.0	208.1
Gross National Product	bil. $	2918.5	3095.1	3187.2	3282.0	3387.5	3238.0
Personal Consumpt Expenditures	bil. $	1856.6	1954.4	2005.2	2071.8	2138.6	2042.5
Gross Private Dom. Investment	bil.$	454.7	480.4	498.5	507.8	523.2	502.5

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983
Consumer Price Index, NSA	1967=100	295.8	312.8	319.2	326.5	332.6	322.7
Producer Price Index, NSA	1967=100	321.6	336.8	345.9	354.0	360.5	349.3
Implicit GNP Price Deflator	1972=100	208.1	217.7	221.0	226.8	231.6	224.3
Gross National Product	bil. $	3238.0	3490.2	3581.2	3723.8	3859.7	3663.8
Personal Consump Expenditures	bil. $	2042.5	2198.2	2252.7	2353.2	2462.7	2316.7
Gross Private Dom. Investment	bil. $	502.5	545.5	564.5	577.0	587.7	568.7

*Historical Data

start to climb again next year. Agricultural products prices are seen as being at the bottom currently. The forecast shows that in 1982, industrial materials prices will go up by approximately 10.2 percent and agricultural products prices by 8.3 percent. The gains for 1983 are, respectively, 10.2 and 8.1 percent. In the two years after that, the rates of change are seen as being roughly the same.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 16)

As compared to last month's forecast, the unemployment rates for the last two quarters of this year have been reduced slightly. This is mainly due to the drop in the unemployment rate in July that was not expected. The July rate of 7 percent was a 15 month low. The total unemployed was lowered to an adjusted 7.5 million people. Data for the quarters under discussion are presented:

UNEMPLOYMENT RATE (PERCENT)

1981	Third Quarter	Fourth Quarter
KEDI August 1 forecast	7.63	7.57
Current KEDI forecast	7.32	7.41

The Administration has been predicting a rate of 7.7 percent for the fourth quarter of this year. KEDI does not agree with that rate. Merrill Lynch and Chase Econometric has been using a figure of 7.9 percent for the third quarter and fourth quarter unemployment

rate forecasts of 8.0 and 7.9 percent, respectively. Obviously, those rates are seen as too high at this Institute.

The July improvement in employment was fairly widespread except for housing and the auto industry. It is important to remember the month of July is a peak month and the change does not mean there is a new trend. One month's performance cannot be used to make long term conclusions. However, it seems clear that no drastic increases in unemployment will take place in the foreseeable future. Hence, KEDI maintains its forecast for 1982 and subsequent years essentially unchanged.

The forecast for the average workweek and overtime also remains the same.

	Average Workweek Production Worker	Average Factory Overtime
1981	35.5	3.0
1982	36.4	3.3
1983	36.6	3.4
1984	35.9	3.3

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	99.3	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.9	96.4	95.5
Unemployment Rate	%	7.19	7.34	7.37	7.32	7.41	7.36

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.7	100.2	100.9	101.9	102.7	101.5
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.5	96.9	97.5	98.6	99.4	98.1
Unemployment Rate	%	7.36	7.43	7.41	7.29	7.21	7.34

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.5	104.0	105.2	105.7	106.8	105.5
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.1	100.7	101.8	102.4	103.4	102.1
Unemployment Rate	%	7.34	7.02	6.91	6.80	6.52	6.81

* Historical Data

1.40 HOUSING
(Table 1.40 on page 19)

Housing starts went up a bit in July to a seasonally adjusted annual rate of 1.055 million. The revised June rate was 1.021 million. The 3.3 percent gain between those months was preceeded by a May-June drop of close to 12 percent.

Most of the gain in July was in starts of multifamily units. Such starts increased by 6.4 percent as opposed to the single family housing starts going up by 1.8 percent to an annual rate of 691,000.

One small area of housing experiencing steady growth is that of the "bargain" homes: homes that are small and on very small lots--by U.S. standards. (Many Russians or Japanese would consider them ample.) Such houses sell for as low as $30,000. Builders typically put about eight houses to an acre and build one or two bedroom homes with less floor space or small three bedroom units without garages. In the Southwest, such homes are selling at a good clip. They are considered "starter" homes. It may be that they will be the permanent home for many as the American Dream is scaled down to fit economic conditions.

The forecast for housing starts remains unchanged here. Housing starts have reached the bottom, and no more significant decreases are expected in the rest of the year. KEDI does not agree with

Michael Sumichrast of the NAHB. He indicated that housing starts will go under one million. The reader is referred to Table 1.40. Calculations here show that starts for single family units will amount to 758,000 and the multifamily figure will be 426,000 for a total of 1.184 million units this year.

Permits for one-family homes were down by 7.9 percent in July. However there was a small increase of 1.5 percent in the number of permits issued for multifamily units. KEDI anticipates starts in the rest of the year will be about flat with the multi-unit gain balanced by the single unit decline.

Mortgage rates remain high. The national average for a fixed rate loan not backed by a government agency went up to 17.27 per cent in mid-August.

This Institute projects that housing starts will show a slight increase in 1982 as compared to the current year. In 1983 housing activities will return to a more normal level, and there will be more momentum the following year. In terms of percentage changes in the housing starts of privately owned units, a drop is seen this year and then steady gains till 1985.

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.776	.698	.710	.758
Multifamily Housing Starts	mil.	.473	.511	.391	.396	.405	.426
Mobile Home Shipments	mil.	.222	.248	.276	.280	.249	.263
Housing Permits Issued	mil.	1.117	1.167	1.130	.941	.920	1.040
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.1	226.2	216.9
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.5	226.1	217.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.758	.691	.725	.864	.827	.772
Multifamily Housing Starts	mil.	.426	.404	.471	.508	.529	.478
Mobile Homes Shipments	mil.	.263	.262	.294	.324	.336	.304
Housing Permits Issued	mil.	1.040	1.090	1.295	1.389	1.502	1.319
Construction Costs-Commerc.	1972=100	216.9	232.2	242.3	249.9	255.1	244.9
Construction Costs-Resident.	1972=100	217.1	230.7	239.8	239.6	242.8	238.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.772	.820	.937	1.109	1.095	.990
Multifamily Housing Starts	mil.	.478	.530	.675	.702	.643	.637
Mobile Homes Shipments	mil.	.304	.351	.364	.389	.356	.365
Housing Permits Issued	mil.	1.319	1.356	1.670	1.731	1.706	1.616
Construction Costs-Commerc.	1972=100	244.9	259.1	268.4	277.5	285.4	272.6
Construction Costs-Resident.	1972=100	238.2	255.8	269.3	278.4	281.3	271.2

* Historical Data

1.50 BUDGETS
(Table 1.50 on page 21)

Concerning the projection of the Federal Budget, no essential changes have taken place here. The tax and budget cuts were enacted as had been anticipated by KEDI for some time.

The forecast here of the federal deficits for 1981-1984 is maintained. Calculations show that if the Administration is to keep its committment to balance the budget in 1984, added cuts will be needed. Without those, the projection here of the fiscal year deficit is:

1982	$48.9 billion
1983	$28.3 billion
1984	$16.8 billion

If the 1984 fiscal year is to show a balance than a minimum of an additional $40 billion in budget cuts would be necessary: $10 billion from each of the budgets for 1982 and 1983 and roughly $20 billion more carved out of the 1984 budget.

This view, maintained here for all this year, has growing support among other economists. Even Reagan aides acknowledge that the deficit for the year starting Oct. 1 may be as high as $20 billion more than the official figure of $42.5 billion. They see little hope of added cuts for the fiscal 1982 budget. Defense, Medicare, and Social Security are the main areas where substantial cuts could be made, according to budget experts on capitol hill and in the White House.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	301.2	306.7	296.1
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	68.2	72.6	69.7
Surplus./Deficit	bil. $	-61.2	-43.3	-50.0	-50.1	-51.8	-48.8
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	91.8	93.6	90.9
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.5	12.1	13.6	12.6
Surplus./Deficit	bil. $	29.1	37.0	36.0	36.4	37.1	36.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	296.1	317.5	323.4	326.2	335.4	325.6
Corporate Profit Tax Accruals	bil. $	69.7	85.7	90.9	100.6	114.3	97.9
Surplus./Deficit	bil. $	-48.8	-39.6	-30.5	-33.5	-30.8	-33.6
State and Local Governments:							
Income Taxes	bil. $	90.9	97.1	100.4	103.0	105.4	101.5
Corporate Profit Tax Accruals	bil. $	12.6	14.2	15.9	16.1	18.3	16.1
Surplus./Deficit	bil. $	36.6	36.7	35.0	34.1	32.6	34.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	325.6	340.1	354.7	357.8	369.8	355.6
Corporate Profit Tax Accruals	bil. $	97.9	120.7	128.9	136.5	142.2	132.1
Surplus./Deficit	bil. $	-33.0	-31.6	-26.2	-30.4	-23.3	-27.9
State and Local Governments:							
Income Taxes	bil. $	101.5	108.1	112.5	114.9	117.1	113.2
Corporate Profit Tax Accruals	bil. $	16.1	20.9	21.6	22.8	23.8	22.3
Surplus./Deficit	bil. $	34.6	31.8	31.9	30.8	27.9	30.6

* Historical Data

BUDGETS

Regarding State and local budgets, the projected tax receipts for 1982-83 have been increased somewhat. It is expected here that the Administration will reduce its grants to states to an extent greater than had been anticipated previously. Such cuts will be made in the attempts to narrow the federal deficit. They will, in turn, lead to higher taxation of businesses and individuals by the states in order to balance their books.

1.60 INCOME

(Table 1.60 on page 23)

The major change in this section concerns corporate after-tax profits. The forecast data have been reduced here by an average of 8 percent for each of the second, third, and fourth quarters of this year. The basic reason for the change is the downward revision of the forecast data for steel, lumber, automobiles, oil companies, and machinery in 1981. The forecast for the 1982-85 period remains essentially unchanged.

The forecast data for personal income, personal disposable income, and personal savings remain essentially the same when compared to the previous forecast.

A detailed forecast of profits by industries shows that the largest gains during 1982-83 are expected in the following industries: defense, chemicals, mining and nonferrous metals, steel, crude oil

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TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.9	2394.0	2454.9	2384.4
Personal Dispos. Income	bil. $	1821.7	1947.8	1986.2	2001.0	2054.6	1997.4
Compensation of Employees	bil. $	1596.5	1722.4	1751.2	1783.4	1815.7	1768.2
Corp. Profits After Tax	bil. $	163.1	169.2	150.1	159.7	172.4	162.9
Personal Saving	bil. $	101.3	88.9	105.2	104.9	112.0	102.8
Average Weekly Earnings	$	297.4	310.7	316.4	318.3	325.7	317.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2384.4	2515.3	2576.4	2656.4	2738.1	2621.5
Personal Dispos. Income	bil. $	1997.4	2100.7	2152.6	2227.2	2297.3	2192.7
Compensation of Employees	bil. $	1768.2	1836.5	1880.7	1943.6	1997.0	1914.4
Corp. Profits After Tax	bil. $	162.9	180.5	189.4	199.3	206.8	194.0
Personal Saving	bil. $	102.8	107.1	108.3	117.0	116.4	112.2
Average Weekly Earnings	$	317.8	331.0	335.9	341.7	348.2	339.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2621.5	2815.3	2888.2	3021.7	3130.6	2964.0
Personal Dispos. Income	bil. $	2192.7	2367.1	2421.0	2549.0	2643.7	2495.2
Compensation of Employees	bil. $	1914.4	2041.6	2088.3	2193.8	2277.0	2150.2
Corp. Profits After Tax	bil. $	194.0	214.7	216.9	223.4	229.7	221.2
Personal Saving	bil. $	112.2	119.1	118.9	121.8	132.7	123.1
Average Weekly Earnings	$	339.2	355.1	364.0	370.6	378.5	367.1

production, electrical machinery, paper and products, and machine tools. Moderate profits are anticipated in rubber, retail and wholesale food, transportation, apparel and textile industries. The projection's for construction, lumber, forest products, and autos show low profits in 1982, some improvement in 1983 and sharp gains in 1984.

The forecast data for personal income in current dollars provides the following increases over the previous year: 1982, 9.9%; 1983, + 13.1%; 1984, +12.9%; and 1985, +13.7%

1.70 MONEY AND CREDIT

(Table 1.70 on page 25)

The forecast of the development of monetary and credit aggregates has not been changed significantly for the 1981-83 years. Assumption No. 2 of tight monetary and credit policy during 1981 and 1982 remains the same. To repeat: More apparent relaxation is not expected any earlier than 1983.

That has been confirmed recently. Other analysts indicate the credit policies will remain the same. Federal Reserve officials continue to point out their determination to curtail monetary growth in order to lower the inflation rate. KEDI expects that the position of the Federal Reserve System will remain firm and that money

KENT ECONOMIC AND
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Month: September 1981

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	387.7	365.8	365.3	369.1	372.4	368.4
Time Deposits, Adjusted, M2	bil. $	1669.4	1718.4	1757.9	1772.6	1788.9	1759.5
Consumer Instal. Credit	bil. $	313.4	310.8	317.9	324.6	332.7	332.7
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	338.3	345.6	350.4	350.4
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.8	141.9	147.3	147.3
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.6	508.9	510.8	510.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	368.4	376.1	380.3	386.7	394.6	384.4
Time Deposits, Adjusted, M2	bil. $	1759.5	1809.6	1821.4	1859.7	1894.8	1846.4
Consumer Instal. Credit	bil. $	332.7	339.8	345.2	353.4	360.7	360.7
Commerc. & Industr. Loans at Banks	bil. $	350.4	357.6	360.9	369.5	380.4	380.4
Negotiable Cert. of Deposits	bil. $	147.3	155.2	158.7	164.3	166.2	166.2
Mortgages at S & L Assns.	bil. $	510.8	514.6	522.3	527.1	535.6	535.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	384.4	405.1	413.7	420.5	427.3	416.7
Time Deposits, Adjusted, M2	bil. $	1846.4	1912.6	1939.8	1989.5	2030.4	1968.1
Consumer Instal. Credit	bil. $	360.7	368.0	377.6	385.3	390.4	390.4
Commerc. & Industr. Loans at Banks	bil. $	380.4	386.7	397.4	403.2	415.7	415.7
Negotiable Cert. of Deposits	bil. $	166.2	167.1	170.5	173.4	175.9	175.9
Mortgages at S & L Assns.	bil. $	535.6	543.8	549.2	559.3	564.6	564.6

supply increases will be at low levels. The projection here shows that monetary growth in M1B will be 3 percent in 1981, 3.5 in 1982, 4.5 in 1983, and 4.0 percent in 1984.

This Institute's forecast of commercial and industrial loans shows slow growth somewhat corresponding to the limited monetary growth. Such loans are calculated to grow by 3.5 percent in 1981, 4.2 in 1982, and slightly sharper rates of 5.8 in 1983, and 5.7 percent in 1984.

The forecast of the volume of consumer credit shows regular increases throughout the 1981-84 periods. No significant ups or downs are anticipated.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 28)

KEDI's projection shows that interest rates will remain high for the rest of this year and next. As was mentioned in earlier issues, the financial markets will still be under heavy pressures caused by federal borrowing to cover the deficits. Also, there is the Fed's determination to keep interest rates high to fight inflation. Chairman Paul Volcker of the Federal Reserve Board recently acknowledged there is some pain in parts of the economy caused by

high interest rates, but he sees it as unavoidable in the inflation fight.

This Institute is skeptical of the optimistic outlook of the Secretary of the Treasury, Mr. Regan. He indicated that the prime rate would be near to 15 percent by the end of the year. The forecast at KEDI points to a prime rate of 18-19 percent at the end of the year, 16-17 percent in 1982, and moving down again in 1983.

As seen here, the problem is that through 1983, at least, the U.S. economy will continue to become more sectorized with some sectors enjoying significant growth, such as defense, energy, and electronics, and others, such as housing, thrift institutions, and small businesses being lucky to have very sluggish growth.

Monetary and credit policies aimed to curb inflation must necessarily hurt the interest sensitive industries just mentioned. They are more easily bearable, obviously, by the sectors that are managing some growth.

The remedy of the situation can only be realized when the inflationary pressures ease. At that time, monetary and credit policy can be relaxed and be less damaging to the industries most sensitive to

KENT ECONOMIC AND
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MONTH: September 1981

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.42	14.37	14.91	15.69	14.37	15.09
Prime Rate	%	15.10	19.21	18.93	20.09	19.61	19.46
Mortgage Rate, New Homes	%	14.43	15.11	16.13	16.72	16.59	16.14
Aaa Bonds Rate	%	11.94	13 98	14.78	15.26	15.02	14.76
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	13.74	13.70	13.42
Standard & Poor's 500 Average	1941-43 =10	118.71	133.52	132.81	130.21	132.36	132.23

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	15.09	14.67	14.59	14.23	13.98	14.37
Prime Rate	%	19.46	18.95	18.46	17.37	17.09	17.95
Mortgage Rate, New Homes	%	16.14	15.87	15.36	15.01	14.38	15.16
Aaa Bonds Rate	%	14.76	14.76	14.54	13.72	13.24	14.07
Long Term Govt. Bonds Yield	%	13.42	13.61	13.32	13.21	13.18	13.33
Standard & Poor's 500 Average	1941-43 =10	132.23	133.26	134.97	137.58	137.21	135.76

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.37	13.31	12.98	12.81	13.14	13.06
Prime Rate	%	17.95	16.54	16.41	16.23	16.58	16.44
Mortgage Rate, New Homes	%	15.16	13.95	13.40	13.51	13.64	13.63
Aaa Bonds Rate	%	14.07	12.97	12.41	11.92	12.15	12.36
Long Term Govt. Bonds Yield	%	13.33	12.86	12.54	12.06	12.10	12139
Standard & Poor's 500 Average	1941-43 =10	135.76	138.16	139.26	144.02	140.65	140.52

* Historical Data

interest rates. Such a situation is not likely to occur any earlier than sometime in 1983.

KEDI's projection of the stock market remains essentially the same. Don't panic. The recent decline in stocks is considered to be temporary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Income for the second quarter of 1981 has been selected for comparison. Actual figure has been communicated by the U.S. Department of Commerce (second revision of NIP data for second quarter 1981). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

PERSONAL INCOME

(Second quarter 1981, bil. $, S.A.A.R.)

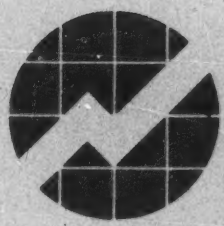
Actual: 2368.9

	Page of Business Forecasts 1981:	Forecast	% of Accuracy
Georgia State University	23	2302.0	-2.8
The First National Bank of Chicago	24	2310.0	-2.5
Manufacturers Hanover Trust Co.	25	2245.8	-5.2
UCLA	27	2320.0	-2.1
Standard & Poor's Co.	31	2311.0	-2.4
Data Resources, Inc.	32	2320.0	-2.1
KEDI	33	2358.8	- .4
Fidelity Bank	34	2344.1	-1.1
Morgan Guaranty	35	2364.3	- .2
Chase Econometrics	36	2358.5	- .4

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KEDI ECONOMIC SURVEY

OCTOBER 1981 ISSUE



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KEDI ECONOMIC SURVEY

OCTOBER 1981 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claims based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

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In this issue, GNP for the second quarter 1981 has been selected for comparison.

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1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Since the time when the Administration's economic program was proclaimed in November of 1980, KEDI has maintained the position that the program is feasible. HOWEVER, it has also been maintained here that the 1984 budget would not achieve anything close to a balance as it was outlined last year. President Reagan's speech on the night of September 24 proposed more cuts.

What KEDI had been projecting since last fall was that:

1. The federal budget cannot be balanced. Fiscal 1984 would end with a deficit of around $15 billion.
2. The rate of inflation would be higher than the Administration expects from 1982 through 1984.
3. The rates of growth of the economy will be lower than they predict.

NOW, after almost a year has gone by, proposals come from the White House for more budget cuts starting with $13 billion in 1982. Others have suggested that roughly $75 billion more will have to be cut in the two years following.

KEDI had been proposing for some time that the 1984 budget could only achieve being close to some balance if the following additional amounts were carved from spending:

$10 billion in 1982

$10 billion in 1983

$20 billion in 1984

Reagan's speech of last week generally affirmed, at last, what has been said here concerning the 1982 budget.

The forecast contained in this issue includes $13 billion more removed for the '82 budget. The same amount is now assumed to be removed from the 1983 budget and $22 billion from the '84 spending.

Compared with the budget cuts forecast (as of early September of the year), the present forecast, allowing for adjustment based on the late September Reagan speech, shows slightly higher unemployment rates, an inflation rate slightly lowered, and faster declines in the interest rates. The comparable figures for 1984 are presented here:

1984	Unemployment rate	Inflation rate	Prime rate
KEDI previous forecast without added tax cuts	6.8%	8.5%	14%
KEDI current with added tax cuts	7.0%	8.2%	13%

Calculations at this Institute show that when the expected additional budget cuts are adopted (1982-4: 13, 13 and 22 billion dollars, consecutively) then the calendar year deficits will be as follows:

Billions of Dollars, Deficit revision by KEDI

1982	42
1983	30
1984	11

This forecast does not eliminate the deficit entirely, but it does show a greatly reduced deficit.

The added cuts will put a slight crimp in economic growth. Such growth had been projected here at 3% for '82 and '83. With the cuts, those figures are seen as being 2.8 and 2.9 respectively. Growth in 1984 is seen as being about the same, i.e., 4 percent.

The projection of the general trend remains the same. In 1982, the economy will remain sectorized with some sectors such as mining, defense, electronics, chemicals, plastics, aerospace, energy exploration and related industries showing fast growth. Sluggish performances are anticipated for housing, cars, appliances and related industries. During 1983, the economy will become more compact with more regular growth in all the industries, and a resumption of general expansion will take place. The economy is expected to be in full swing in 1984 with the upward trend continuing in the following years.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No. 1 and 4.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $36-38; in 1983, to $41 per barrel; in 1984, to $44 per barrel; and in 1985, $48 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. Increases in state and local taxation in 1981-85 are anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and low 1981 production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britian	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The October 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

MONTH: October 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1512.5	1553.7	1731.3
Index of Industrial Production	1967 =100	147.1	152.5	156.6	184.7
Capacity Utilization	%	78.7	79.8	82.3	86.1
Unemployment Rate	%	7.2	7.4	7.4	6.3
Private Housing Starts	mil. units	1.292	1.112	1.135	1.694
Car Sales	mil. units	9.0	9.0	9.6	11.0
Implicit GNP Price Deflator	1972 =100	177.4	192.5	206.5	248.9
Consumer Price Index	1967 =100	246.7	271.3	296.3	369.8
Producer Price Index	1967 =100	269.8	294.4	323.2	384.1
Federal Deficit	bil. $	-61.2	-47.5	-42.3	-17.2
Personal Income	bil. $	2160.2	2380.7	2615.2	3710.5
Prime Rate	%	15.10	19.36	17.13	12.37
Mortgage Rate	%	14.43	16.14	15.07	11.42
Currency plus Demand Deposits	bil. $	377.1	366.9	381.8	442.3
Commercial and Industrial Loans	bil. $	324.9	354.1	384.5	443.9

1.10 REAL GROWTH
(Table 1.10 on page 10)

As compared to the previous forecast, the data for real growth and the Index of Industrial Production for the years 1981-83 have been slightly reduced due to the impact of the added cuts in federal spending. However, the trend line for the 1981-84 years remains unchanged.

It is expected here that the third quarter of this year will show a slight decline in economic activity or be basically flat. Some rebound is anticipated for the fourth quarter. Slow growth is seen in 1982 and robust increments in economic activity will take place in 1983 and 1984.

KEDI does not see any serious decline in the economy during the rest of this year or in 1982. Recent developments lend support to that view.

First, factory orders did go up in July. The seasonally adjusted gain of 1.3 percent was the sixth month in a row of gains. Most of the boost was in transportation industries. Aircraft orders rose 50 percent in July. Tank and shipbuilding orders were also up sharply.

Expansion in orders were also recorded for the metals industry. Primary metals showed a rise of 9.8 percent.

Secondly, retail orders did gain a wee bit in August. Such sales were up by 0.6 percent. There was some increase for both durables and nondurables.

Third, new orders in manufacturing went up in July. Unfilled orders also posted some gain.

Fourth, there was a jump in orders for die forgings in July. Such orders skyrocketed by 86 percent over the year earlier total.

Fifth, the forecast for corn and soybeans was increased by the Agriculture Department. In mid-September they revised their forecast from the August level to show an additional 3 percent.

Also, hog farmers are beginning to rebuild their herds. This is in reaction to higher hog prices and better prospects.

Despite the meanderings of the miserable munching Mediterranean fruit fly the outlook for California's fruit harvest looks very good. Harvesting is mostly over for summer fruits such as peaches and plums which are expected to show a gain of 12 and 13 percent respectively.

Sixth, truck sales, although expecting to show a decline for this year of about 3.5 percent by those connected with the industry, are forecast to gain close to 21 percent in 1982. Mr.

M. A. Ward of Dean Witter Reynolds anticipated that production will go up by around 28 percent next year to cover both increased sales and replenishment of inventories.

Negative Indications.

First, orders for machine tools in July went down 37 percent from the prior year. However, most officials in the industry expect a bit of recovery in September. Many in manufacturing are putting off orders for a time. They are not cancelling them but DELAYING. That delay can be viewed as a positive sign versus outright tearing up of orders.

Second, new factory orders for durables dropped 2.5% for August. However, the orders for nondefense capital goods, a barometer of future plant and equipment spendings, rose 2.4%.

Third, the Index of Industrial Production did show a drop, but it was not all that substantial. The Index was at 152.8 percent of the 1967 average in August, whereas the July level was 153.4.

Fourth, the Index of Leading Indicators also showed a decline. Again, it was a small one. During July, this Index edged down by an estimated 0.1 percent from the prior month.

Overall, the positive news outweighs the negative. Some press coverage attempts to point to recession. This gloomy view is seen as exaggerated. The declines that have occurred are mild and/or temporary as seen by KEDI.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: October 1981

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1509.6	1513.6	1512.5
Index of Industrial Production	1967=100	147.1	151.8	152.7	152.5	152.8	152.5
Unemployment Rate	%	7.2	7.3	7.4	7.3	7.5	7.4
Capacity Utilization Rate	%	78.7	79.9	80.1	79.4	79.9	79.8
Private Housing Starts	mil. units	1.292	1.361	1.166	.968	.955	1.112
Car Sales	mil. units	9.0	10.2	7.9	8.6	9.4	9.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1512.5	1528.1	1548.3	1560.4	1578.1	1553.7
Index of Industrial Production	1967=100	152.5	153.7	155.2	157.1	160.3	156.6
Unemployment Rate	%	7.4	7.5	7.4	7.4	7.3	7.4
Capacity Utilization Rate	%	79.8	80.3	81.9	82.7	84.1	82.3
Private Housing Starts	mil. units	1.112	1.043	1.105	1.174	1.217	1.135
Car Sales	mil. units	9.0	9.2	9.4	9.7	10.0	9.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1553.7	1597.2	1627.6	1645.6	1668.9	1609.8
Index of Industrial Production	1967=100	156.0	164.9	168.7	172.0	174.9	170.1
Unemployment Rate	%	7.4	7.1	7.0	6.9	6.6	6.9
Capacity Utilization Rate	%	82.3	85.0	85.9	87.1	87.4	86.4
Private Housing Starts	mil. units	1.135	1.337	1.557	1.811	1.738	1.611
Car Sales	mil. units	9.6	9.9	9.8	10.6	11.0	10.3

* Historical Data

1.20 PRICES
(Table 1.20 on page 13)

There is no real change in this issue for the projection of price developments. The adjustment for each year through 1983 is 0.1 percent as compared to the last year.

In terms of the Consumer Price Index, the following price increases are now forecast.

Consumer Price Index (1967=100)
Percentage change over prior year

1981	9.9
1983	9.2
1983	9.1
1984	8.2

The main price increases for the rest of this year will be in energy, medical care, and housing. Gasoline prices, for instance, are expected to go up by about five cents a gallon through December. Food price gains will level off.

In 1982, the main areas leading in price increases will be energy items (such as electricity, gasoline, heating oil) and also housing costs. Food prices will resume the upward trail in the latter part of that year.

Slower rates of inflation are projected for 1983 and 1984. Still, KEDI does not foresee the 5 percent inflation rate that the Administration predicts for 1984. (Who wouldn't like to see

the rate drop down that far, but wishes or government press releases do not make it reality.)

News in the last month about crops and prices confirm the KEDI view of food prices. Farm prices fell by 2.1 percent in August due mostly to the good harvest prospects and slow exports. Grain and soybean prices went down as yields are expected to exceed earlier government forecasts. Sugar prices fell as the prospects for sugar beet crops improved in Europe and Russia. Those in the sugar industry see world production going up 8.5 percent this year. (Many Americans, in the battle of the bulge and with concern for better nutrition attempt to consume less sugar. If their willpower holds, they won't leap to buy a slightly less costly sweet treat or bag of sugar.)

Producer prices remained about flat in August. The unadjusted index was at 271.2 of the 1967 average as compared to 271.3 for July. KEDI anticipates that the favorable trend in prices of raw materials will cease by the end of this year or at the beginning of 1982.

KENT ECONOMIC AND
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Month: October 1981

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	269.7	275.4	277.3	271.3
Producer Price Index, NSA	1967=100	269.8	287.3	291.7	296.8	301.9	294.4
Implicit GNP Price Deflator	1972=100	177.4	188.1	191.1	193.9	196.7	192.5
Gross National Product	bil. $	2626.1	2853.0	2885.8	2927.0	2997.4	2915.8
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1855.1	1876.6	1842.7
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	452.8	462.6	452.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	271.3	287.2	292.1	298.7	307.1	296.3
Producer Price Index, NSA	1967=100	294.4	308.9	317.6	324.1	342.3	323.2
Implicit GNP Price Deflator	1972=100	192.5	200.4	205.1	208.3	212.2	206.5
Gross National Product	bil. $	2915.8	3062.3	3175.9	3250.8	3348.4	3209.4
Personal Consumpt Expenditures	bil. $	1842.7	1919.4	1988.5	2035.3	2096.8	2010.0
Gross Private Dom. Investment	bil.$	452.8	481.7	501.2	510.5	525.9	504.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	296.3	313.3	319.8	326.9	333.2	323.3
Producer Price Index, NSA	1967=100	323.2	347.1	354.6	359.2	365.7	356.7
Implicit GNP Price Deflator	1972=100	206.5	215.6	220.0	224.8	228.5	222.2
Gross National Product	bil. $	3209.4	3443.6	3580.4	3722.5	3813.1	3639.9
Personal Consump Expenditures	bil. $	2010.0	2151.6	2201.9	2283.7	2365.4	2250.7
Gross Private Dom. Investment	bil. $	504.8	545.5	564.9	579.4	590.6	570.1

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 16)

When compared with the last projection, this one remains essentially unchanged. In August, the unemployment rate increased to 7.2 percent and a further rise is expected for September. That is in line with the projection that has been made here.

KEDI does not agree with Evans Econometrics. Mr. Evans views the rate of unemployment as declining some for the rest of the year to a level of 7 percent. Nor does this Institute agree with Mr. Chimerine of Chase Econometrics in his forecast of that rate being 8 percent by the end of the year. The KEDI's projection of the last quarter's unemployment rates are the following:

1981	7.46
1982	7.34
1983	6.64
1984	6.70
1985	6.65

The projection by industries for the rest of this year and for 1982 shows high employment and job vacancies in mining, energy exploration, chemicals, defense and related industries. The employment outlook is moderate for steel, paper, rubber, plastics, transportation, food, electrical and nonelectrical machinery,

and service industries. Appliances, lumber, household furnishings, and the automobile industry will not improve earlier than the second half of 1982. Joblessness will decline more significantly starting in 1983.

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	99.3	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.9	96.3	95.5
Unemployment Rate	%	7.19	7.34	7.37	7.27	7.46	7.36

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.7	100.2	100.9	101.8	102.6	101.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.5	96.8	97.5	98.5	99.3	98.0
Unemployment Rate	%	7.36	7.49	7.43	7.37	7.34	7.41

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.4	103.9	105.1	105.6	106.6	105.4
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.0	100.6	101.7	102.3	103.2	102.0
Unemployment Rate	%	7.41	7.12	6.98	6.92	6.64	6.92

* Historical Data

1.40 HOUSING
(Table 1.40 on page 18)

The projection of housing starts has been slightly revised. Housing starts are now expected to total 1.113 million units this year as compared to the previous forecast of 1.184.

KEDI does not agree with the view of the National Association of Home Builders as expressed by Mr. Sumichrast. In his view housing starts will fall below an annual rate of 900,000 during the continued declines that he expects during the next six months.

The projection here shows that housing starts are about at the bottom. No significant additional declines will take place. The reasons follow: First, even though August data are bad as housing starts went down by 10.7 percent, multifamily starts gained some. Such starts went up 1.2 percent in August. Secondly, the decline in building permits was not large. The 5.5 percent downward move does not indicate any further dramatic downturn. On the bright side, new home sales rose by 2.4 percent in July. Still they remain at very low levels.

The forecast by this Institute shows that housing will remain low throughout 1982. Significant increases will be seen in 1983 and 1984.

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit		1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.776	.619	.597	.711
Multifamily Housing Starts	mil.	.473	.511	.391	.349	.358	.477
Mobile Home Shipments	mil.	.222	.248	.276	.245	.240	.252
Housing Permits Issued	mil.	1.117	1.177	1.147	.872	.864	1.015
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.9	227.4	217.4
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	227.0	217.4

Indicator	Unit		1	2	3	4	
Single-Family Housing Starts	mil.	.711	.624	.703	.771	.796	.724
Multifamily Housing Starts	mil.	.477	.369	.402	.463	.501	.434
Mobile Homes Shipments	mil.	.252	.251	.268	.295	.309	.281
Housing Permits Issued	mil.	1.015	1.906	1.084	1.205	1.314	1.127
Construction Costs-Commerc.	1972=100	217.4	233.1	243.1	250.3	256.3	254.7
Construction Costs-Resident.	1972=100	217.4	231.6	240.6	242.0	243.7	239.5

Indicator	Unit		1	2	3	4	
Single-Family Housing Starts	mil.	.724	.811	.906	1.109	1.095	.980
Multifamily Housing Starts	mil.	.434	.526	.651	.702	.643	.631
Mobile Homes Shipments	mil.	.281	.336	.358	.389	.356	.360
Housing Permits Issued	mil.	1.127	1.360	1.582	1.691	1.701	1.584
Construction Costs-Commerc.	1972=100	254.7	259.9	269.5	278.4	286.3	273.5
Construction Costs-Resident.	1972=100	239.5	256.8	270.1	279.1	282.5	272.1

* Historical Data

1.50 BUDGETS
(Table 1.50 on page 21)

This October, 1981, forecast is based on the assumption that the federal budget for 1982 which starts October 1, 1981, will be cut by $13 billion more. (The Reagan budget as of July was projecting expenditures for 1982 of $704.8 billion and revenues of $662.4.) The budget for 1983 will be cut by an additional $13 billion and the 1984 spending will be reduced by another $22 billion.

The Administration has indicated that it may plan to cut approximately $75 billion from the projected spending for 1983 and 1984. That is too large and would affect growth. The KEDI analysis shows that such cuts of such a dimension can be realized only by trimming the defense outlays by roughly $40 billion and saving the remaining $35 billion out of civilian portions of the 1983 and 1984 budgets. Such added drastic trimming would "cut too close to the bone." The patient (our economy) doesn't need to be bedridden by such severe action.

The KEDI projection now incorporates the 1983 added $13 billion cut and the 1984 estimated trimming of $22 billion only. The projected data show that with these fairly modest cuts, the deficits in '83 and '84 can be reduced to reasonable levels of $30 billion in 1983 and $11 billion in 1984. The U.S. can tolerate deficits in this range.

In the September 1, 1981, KEDI issue, it was assumed that the $40 billion budget package would not be approved by Congress. The main reason for the lack of approval included the politically sensitive reductions in Social Security benefits. Such changes would hardly be acceptable to Congress or to those that put them in office. It is now assumed at this Institute that the present budget cut proposal of $13 billion for 1982 will go through Congress with some possible minor adjustments. Approval is likely because there are no longer any Social Security reductions in the proposals. (Reagan got the message that his cuts did not stand a chance if the varied benefits were touched in a negative way.)

The calendar year projections of the federal deficit by KEDI that include the added cuts of $13, $13 and $22 billion are as follows in billions of dollars:

1982	42.3
1983	29.7
1984	10.7

The forecast data for surpluses of state and local governments have been somewhat reduced since it is anticipated that some revenue sharing items will be reduced.

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TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.2	296.8	300.4	293.4
Corporate Profit Tax Accruals	bil. $	70.1	77.9	64.8	66.2	73.4	70.6
Surplus./Deficit	bil. $	-61.2	-43.3	-47.2	-50.7	-48.6	-47.5
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	91.9	93.9	91.0
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	12.2	14.4	12.8
Surplus./Deficit	bil. $	29.1	37.0	36.1	36.3	36.7	36.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	293.4	308.7	316.9	319.0	329.1	318.4
Corporate Profit Tax Accruals	bil. $	70.6	80.6	87.2	90.5	103.0	90.3
Surplus./Deficit	bil. $	-47.5	-42.4	-43.9	-43.3	-39.7	-42.3
State and Local Governments:							
Income Taxes	bil. $	91.0	98.2	101.5	103.9	106.2	102.5
Corporate Profit Tax Accruals	bil. $	12.8	15.2	16.9	17.4	19.3	17.2
Surplus./Deficit	bil. $	36.5	36.4	34.8	33.5	32.1	34.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.4	338.2	350.6	356.9	368.7	353.6
Corporate Profit Tax Accruals	bil. $	90.3	110.2	117.0	131.1	140.3	124.7
Surplus./Deficit	bil. $	-42.3	-33.9	-23.1	-23.5	-18.5	-29.7
State and Local Governments:							
Income Taxes	bil. $	102.5	109.4	113.4	115.6	117.9	114.1
Corporate Profit Tax Accruals	bil. $	17.2	21.7	22.6	29.8	25.1	24.8
Surplus./Deficit	bil. $	34.2	30.8	30.9	30.8	31.9	31.1

* Historical Data

1.60 INCOME
(Table 1.60 on page 23)

The forecast data for personal income and other income aggregates preserve the 1981-83 trend as outlined in previous KEDI issues. That is, there will be very small increases during the rest of this year and in 1982. More significant increments will be seen in 1983 and the following years.

Though the trend has remained unchanged, there is a slight downward revision in personal income, personal disposable income and related aggregates mainly due to the impact of the new federal spending cuts anticipated for the rest of 1981 and 1982. For 1983 and 1984, no significant changes are seen as compared to the data in the September, 1981, forecast.

The data for personal income, personal disposable income, and personal savings for August of 1981, recently released by the U.S. Department of Commerce, show no real change when allowance is made for inflation. In August personal income rose by $26.9 billion to a seasonally adjuted $2.446 trillion annual rate. That supports the KEDI analysis that the economy is not heading into any recession.

The forecast data on profits have not been changed significantly when compared to the prior forecast.

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TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2384.7	2449.7	2380.7
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	1996.0	2055.4	1996.2
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1780.6	1814.1	1767.3
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	159.6	167.3	162.2
Personal Saving	bil. $	101.3	88.9	106.6	106.3	110.7	103.1
Average Weekly Earnings	$	297.4	310.7	316.9	319.2	326.4	318.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2380.7	2505.6	2570.3	2651.5	2733.2	2615.2
Personal Dispos. Income	bil. $	1996.2	2098.7	2151.9	2228.6	2297.9	2194.3
Compensation of Employees	bil. $	1767.3	1834.1	1877.5	1938.9	1992.7	1910.8
Corp. Profits After Tax	bil. $	162.2	175.4	184.5	194.9	203.8	189.7
Personal Saving	bil. $	103.1	109.2	109.0	117.1	116.9	113.1
Average Weekly Earnings	$	318.3	332.8	336.7	343.1	349.5	340.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2615.2	2802.6	2884.1	3020.5	3129.5	2959.2
Personal Dispos. Income	bil. $	2194.3	2355.0	2420.1	2548.0	2642.9	2491.5
Compensation of Employees	bil. $	1910.8	2040.5	2088.6	2194.0	2278.3	2150.4
Corp. Profits After Tax	bil. $	189.7	211.3	214.9	221.2	227.6	218.8
Personal Saving	bil. $	113.1	119.4	109.7	122.6	124.3	119.0
Average Weekly Earnings	$	340.5	357.4	367.2	373.5	379.2	369.3

1.70 MONEY AND CREDIT
(Table 1.70 on page 25)

The forecast is based on Assumption No. 3: Restrictive monetary and credit policies will prevail for the rest of 1981 and in 1982. Some relaxation is expected in the second half of 1982. However, the restrictive policy will resume in 1983 and continue in following years.

The forecast here reflects that assumption. Data for monetary aggregates show moderate increases, well within the targets set up for 1981-1982. The growth of the Money Supply M1B is projected as 6.3% in 1981, 6.8% in 1982, 7.3% in 1983, and 7.1% in 1984. Money Supply, M2, is expected to grow by 7.6% in 1981, by 8.0% in 1982, 9.3% in 1983, and 8.9% in 1984.

During the rest of 1981 and 1982, moderate demand for commercial and industrial loans is expected. Projections for 1983 and 1984 show rapid expansion. There will be a slowing in this area in 1985.

Consumer credit will expand approximately 6-8% annually throughout 1981-1985. The projection of mortgage loans shows sluggishness for the rest of 1981 and the first half of 1982. From the second half of 1982 through the following years, strong growth is expected.

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	376.7	365.8	364.5	367.2	370.1	366.9
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1764.5	1771.3	1749.5
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	324.9	333.4	333.4
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	347.2	354.1	354.1
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.8	142.6	150.1	150.1
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.6	509.1	511.6	511.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	366.9	374.2	378.1	382.6	392.1	381.8
Time Deposits, Adjusted, M2	bil. $	1749.5	1802.0	1810.8	1849.6	1873.9	1834.1
Consumer Instal. Credit	bil. $	333.4	340.6	346.1	354.2	361.3	361.3
Commerc. & Industr. Loans at Banks	bil. $	354.1	360.1	364.3	373.2	384.5	384.5
Negotiable Cert. of Deposits	bil. $	150.1	156.7	160.4	166.9	169.8	169.8
Mortgages at S & L Assns.	bil. $	511.6	514.4	521.0	526.8	534.2	534.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	381.8	400.1	411.6	419.7	426.2	414.4
Time Deposits, Adjusted, M2	bil. $	1834.1	1910.4	1936.5	1987.8	2028.5	1965.8
Consumer Instal. Credit	bil. $	361.3	370.5	378.2	387.1	392.1	392.1
Commerc. & Industr. Loans at Banks	bil. $	384.5	390.2	398.9	406.1	417.2	417.2
Negotiable Cert. of Deposits	bil. $	169.8	170.4	173.2	176.1	178.0	178.0
Mortgages at S & L Assns.	bil. $	534.2	544.1	550.7	561.6	562.7	562.7

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 in page 28)

The anticipated second round of federal budget tax cuts will result in interest rates, bond rates, and mortgage rates being somewhat lower than was anticipated before the new proposals. On the average, KEDI estimates that over the next three years approximately one percentage point annually will be eased off of these rates if most of Reagan's proposals are approved. For instance, KEDI had forecast the interest rate in the middle 17 percent range for 1983. Now that is seen as being in the middle 16 percent range. The mortgage rate in 1983 had been seen as being generally above 14 percent. Now it is likely to be in the 13 percent area.

Such reductions are certainly positive. Still, any return to single digit interest rates are still far from sight.

KEDI does not agree with the view of Mr. Kaufman from Salomon Brothers that we have not yet seen the highs of interest rates. He expects that current levels will be exceeded in the next nine months. The projection at this Institute shows interest rates will remain at current levels or decline slightly during the rest of this year. For the first half of 1982, the rates will show a slight downward trend.

It is expected that the federal borrowing in the fourth quarter of this year and in the first quarter of 1981 will be approximately $50-55 billion. That amount can be raised on financial

markets without any dramatic increases in interest rates. Calculations show that in order to break the December, 1980, record in interest rates, the Treasury would have to borrow approximately $65-70 billion from financial markets in the fourth quarter of 1981 and the first quarter of 1982. Such a situation is considered unlikely here.

The forecast of the stock market at this Institute has been slightly reduced when compared with prior projections. That reduction is not significant. The current stock market declines are viewed as temporary here.

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TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit		1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.71	14.86	14.94
Prime Rate	%	15.10	19.21	18.93	19.84	19.46	19.36
Mortgage Rate, New Homes	%	14.43	15.11	16.13	16.72	16.61	16.14
Aaa Bonds Rate	%	11.94	13.92	13.98	15.17	15.02	14.52
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	13.71	13.62	13.40
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	129.06	130.95	131.09

Indicator	Unit		1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.94	14.24	14.02	13.89	13.41	13.89
Prime Rate	%	19.36	18.86	17.10	16.52	16.02	17.13
Mortgage Rate, New Homes	%	16.14	15.93	15.21	14.97	14.17	15.07
Aaa Bonds Rate	%	14.52	14.52	14.10	13.49	13.01	13.78
Long Term Govt. Bonds Yield	%	13.40	13.12	13.06	12.97	12.89	13.01
Standard & Poor's 500 Average	1941-43 =10	131.09	132.54	133.61	135.27	136.54	134.49

Indicator	Unit		1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.89	13.01	12.26	12.03	12.25	12.89
Prime Rate	%	17.13	15.94	15.09	15.24	15.68	15.49
Mortgage Rate, New Homes	%	15.07	13.61	13.02	13.10	13.26	13.25
Aaa Bonds Rate	%	13.78	12.52	12.04	11.28	11.46	11.98
Long Term Govt. Bonds Yield	%	13.01	12.56	12.14	11.80	11.96	12.12
Standard & Poor's 500 Average	1941-43 =10	134.49	137.42	138.14	142.25	140.57	139.60

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross National Product for the second quarter of 1981 has been selected for comparison. The actual figure is the September, 1981, revised estimate of the U.S. Department of Commerce. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross National Product, bill. $, seas. adj. at annual rates)

Actual: 2885.8

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
Peter L. Bernstein, Inc.	2779.0	20	-3.7
American Statistical Assn. and NBER	2808.5	21	-2.7
Ameritrust	2783.0	22	-3.6
Georgia State University	2807.3	23	-2.7
The First National Bank of Chicago	2779.0	24	-3.7
Manufacturers Hanover Trust	2731.1	25	-5.4
Chemical Bank	2815.0	26	-2.5
UCLA	2814.7	27	-2.5
WGN Continental Broadcasting Co.	2748.0	29	-4.8
Cyrus J. Lawrence Inc.	2810.4	29	-2.6
Bankers Trust Co.	2806.0	30	-2.8
Standard & Poor's	2790.0	31	-3.3
Data Resources, Inc.	2790.0	32	-3.3
KEDI	2849.7	33	-1.3

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
Fidelity Bank	2817.0	34	-2.4
Morgan Guaranty	2882.8	35	-0.1
Chase Econometrics	2861.2	36	-1.0
Equitable Life Assurance Society	2829.3	37	-2.0